



Co-op Way Report 2016

Our ethics and sustainability performance



Contents

It's important to our members that their business is run in an ethical and sustainable manner. That's why, for over a decade we've been committed to providing members with a comprehensive report on our ethics and sustainability performance to help them understand how we're doing.

We recognise that many members want to receive this information in a short summary, while others welcome, and indeed require, full transparency on our performance, to evaluate how we're doing. That's why, for the first time, our report is in two parts: an Overview and a Performance Data Report.

Overview

This provides an overview of our performance. For the first time, we also report on our programmes that directly support our Co-op Values and Principles and we've indicated examples of our alignment with the Sustainable Development Goals.

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About our Co-op

We're one of the world's largest consumer co-operatives, with over 4 million active members and over 69,000 colleagues. Our purpose is 'Championing a better way of doing business for you and your communities'.

Food Retail

Over 61,000 colleagues

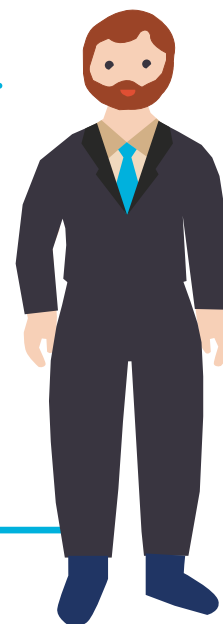
Includes 2,774 Co-op Food stores, Co-op Estates, Logistics



Funeralcare

Over 4,000 colleagues

1,000th funeral home opened in 2016



Insurance

1,400 colleagues

Motor, home, pet and other insurance products



Legal Services

Almost 400 colleagues

Wills, probate, conveyancing, family law and other legal services

Digital

350 colleagues

Including our online electrical retail business



Our Support Centre functions include IT, Finance and HR, mainly based in our Manchester head office, with **1,500 colleagues**

 [Read more about our businesses.](#)



CEO statement

As the new Chief Executive of our Co-op, I am delighted to provide this overview to our 2016 Co-op Way Report.

Throughout our Rebuild we haven't lost sight of our long-standing commitment to social responsibility. The past few years have been some of the most challenging times in our Co-op's history but we haven't forgotten that we only exist to bring value and values to our Membership.

If I was to point to a few things in this Report that stand as testament to this, I would include the work underway to tackle loneliness across the UK; the first round of 4,000 local causes we've been supporting through our new Co-op Membership Scheme; and the 54,000 colleagues involved in our Back to Being Co-op workshops.

Throughout our Rebuild we've been putting Membership back at the heart of every aspect of our work. We know that it's our Co-op model of ownership that has always allowed us to respond to changing economic, social and political environments. Indeed, our history is full of inspiring examples of where we've led on issues that mattered most to our members, be it equality of voting in Co-op elections long before universal suffrage, or being one of the first UK businesses to recognise and respond to climate change.

We're proud of our radical roots and campaigning heritage. Unlike other businesses, our co-operative approach means we're not always beholden to deliver short-term returns but can take the necessary long-term perspective to drive change for the benefit of our business, members and communities.

Continuing our ethical leadership

In 2017 we mark the 25th anniversary of the launch of our first fairly traded product and far from resting on our laurels, today we're still pushing the boundaries. In 2016 our Fairtrade sales grew some three times faster than the overall market and we've announced our switch to 100% Fairtrade cocoa in all Co-op brand products.

Our campaign to tackle loneliness is another example of acting on the concerns of our members. Following extensive consultation and a member vote, we've made a long-term commitment to make a tangible difference to the lives of thousands of people across the UK. The £5.5m that our members and colleagues have raised, as of early 2017, for our partnership with the British Red Cross is just the start of our response.

In 2017 we've also announced a new commitment to helping the victims of modern slavery by providing them with paid work in our stores to help restore self-esteem, confidence and gain life skills. It's a lead we want other businesses to follow.

This work highlights the real opportunity we have to make a positive impact on so many people's lives. Indeed, the number of people and their communities impacted by us and our activities stretches to tens of millions both in the UK and globally. Putting people central to our approach is part of the Co-op Way, helping us to make better decisions both today and for future generations.

Of course, it's been far from plain sailing and there are many areas where we can, and will, do better. We want to do more to reach out to young people and we intend to do so through our apprenticeships. We need to get even better at reducing our waste and have put a new working group in place to help deliver this.

I hope that as you read this Report you'll get a sense of the journey that we've been on. We've gone back to our roots, putting members' needs and concerns at the heart of our Co-op Membership.

And this is only the beginning. We're now planning for our long-term Co-op future, looking for new ways in which to bring value and values to our existing members and to a whole new generation of Co-op Members.

Steve Murrells, Group CEO

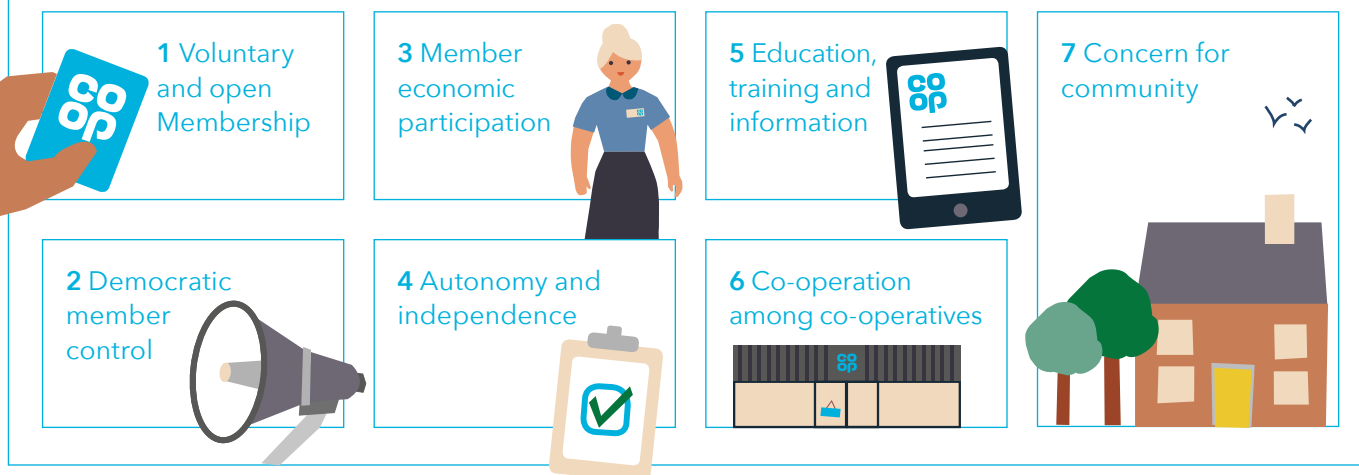
May 2017

Rebuilding ethics in our Co-op

Our approach to running our business in an ethical and sustainable way is firmly rooted in our co-operative Values and Principles.

Co-operatives are based on the values of **self-help, self-responsibility, democracy, equality, equity** and **solidarity**. In the tradition of their founders, co-operative members believe in the ethical values of **honesty, openness, social responsibility** and **caring for others**.

The co-operative principles are guidelines by which co-operatives put their values into practice.



As part of our Rebuild we've taken the opportunity to further embed our co-op difference in everything we do. We've established the Co-op Way Policy Committee – a new co-operative way of working with our Executives, senior management and representatives from our Members' Council, working together to oversee our Group-wide approach to ethics and sustainability, via our Co-op Way Policy Framework. These are the issues that matter most to us, and to our stakeholders, and on which we want to make clear our Co-op difference.

In this Report you can read about our approach and performance across these issues, as well as our engagement with our stakeholders. In line with our long-held commitment to transparency, our performance has been externally assured (ie, independently checked). See what our assurance providers have to say [here](#).

Co-op Way Policy Framework



2017 targets:

Recruit 1 million new members by the end of 2017

We expect to be giving back over £100m to members and their communities by the end of 2018

Increase our sales to members to 50% of total sales (from 20%) by the end of 2018

Business ethics and behaviour

Trust in business is in decline, with public and media scrutiny of corporate behaviour ever more challenging.

We've long sought to balance commercial success with a steadfast commitment to leadership in business ethics and sustainability. We exist to serve our members, who own and have a say in how our Co-op is run. That's why listening to our members is at the core of our approach, because we believe that when we do, we can make better decisions that are right for us and for wider society.

Our approach to business ethics also informs our attitude to fair tax, our approach to financial issues such as [responsible investment](#), and our [professional conduct](#).



Making decisions, ethically

In 2016 we reaffirmed our commitment to put our Values and Principles and our members' views at the centre of our approach to business ethics and behaviour. Our ethical decision-making tool, built collaboratively with members, is how we'll do this.

The Board and [Members' Council](#) endorsed this tool and we began rolling it out to colleagues in 2016, starting with business leaders. This means that when we make decisions we'll be informed by our Values and Principles and, where appropriate, our members' views.

 Read more in our Performance Data Report.

Values and Principles in action

Democracy, Honesty, Openness, Social responsibility, Democratic member control, Member economic participation, Autonomy and independence, Concern for community

Ethical decision-making tool

- 
-  What would our members think?
 -  Does it create commercial and social value for our members?
 -  What is the impact on our communities?
 -  Could our members understand what we have done and why?

Balancing profits with ethics

Throughout this Report are examples of where we've sought to put ethics into action. Here are just a few examples of how we aim to optimise profits by taking an ethical approach:

- We launched our [Membership Scheme](#) in 2016. This means we'll reward our members and their communities when they choose Co-op products and services. The more our members choose us, the more we can give back. It's about creating value – for both our business, and also for our members and their local communities.
- Since 2015, we've invested £1.6bn in sourcing Co-op brand British meat, produce and dairy products, surpassing our target to reach '£1.5bn by the end of 2018' two years early. Although this comes at a commercial cost, it meets member expectations, and adds value to UK communities. It helps British farming in particular which, in turn, supports the long-term sustainability of our business.
- A carbon offset project involves activities which either avoid or absorb greenhouse gas emissions. For the first year of their policy, every customer who purchases a new policy directly through Co-op Insurance will see 10% of their motor¹ or home² energy carbon emissions offset through carbon reduction projects in the developing world, which have added social and environmental benefits, at no extra cost to our customers.



Members' views

In 2016 our members engaged with us in a number of ways, from the formal – voting in [democratic elections and AGM motions](#) – to the informal, through our Join In platform. This platform gives members the opportunity to work with us on live business issues, discussing everything from pizza toppings and holiday insurance to ethical trade and human rights policies.

Looking ahead

We're committed to demonstrating ethical behaviour and decision-making, and we'll report back on how ethical considerations inform our key business decisions through the use of our ethical decision-making tool.



2017 target:

Retain Fair Tax Mark reaccreditation (for our 2016 Annual Report by June 2017)



Fair Tax

Fair Tax Mark

We know that a responsible approach to tax is an issue of [great concern to the UK public](#). In 2015 and 2016 [we were awarded the Fair Tax Mark](#). This sets a new standard for responsible tax practice and reporting, and demonstrates how we are open and transparent about our tax affairs.

¹ Calculated from the average UK passenger car emitting 2.4 tCO₂e, travelling an average of 7,900 miles per year, based on 2015 figures.

² Calculated from the average UK home emitting 4.8 tCO₂e, based on 2015 typical household energy consumption from Ofgem and 2015 Defra conversion factors.

Community

With a presence in almost 1,500 communities across the UK around our food stores and funeral homes, we're well placed to respond to the local needs of the communities in which our members and colleagues live, work and shop – and this is our primary focus. Beyond this, we recognise that our success is linked to the success of the communities we source our products and services from, both in the UK and overseas. As part of the international Co-operative Movement we also support the wider international community and we support the most vulnerable, particularly at times of crisis.

In 2016, we continued to work with our members and communities to understand how we can best support them. As a result, we launched our [Membership Scheme](#). At the same time, our members and colleagues continued to engage and volunteer in the local life of their communities and supported our national campaign to tackle loneliness. We also recognise that co-operatives can help build more resilient communities in line with our Principle of 'Co-operation among co-operatives'. This includes community-based co-operatives and our eight co-operative academies.

 Read more in our Performance Data Report.

Values and Principles in action

Solidarity, Caring for others, Education, training and information, Co-operation among co-operatives, Concern for community

Building resilient communities

UK communities

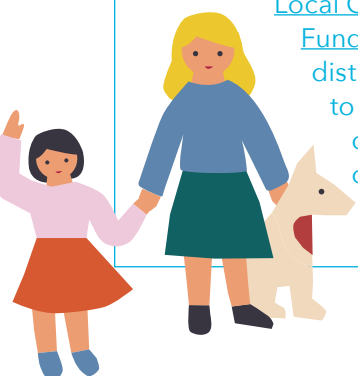
£10.8m

total invested in UK communities (2015: £5.8m).

£4.5m raised for our campaign to tackle loneliness with the British Red Cross in 2016.

1 in 5 colleagues involved in community activity.

As part of our Membership Scheme we established the [Local Community Fund](#) to raise and distribute funds to thousands of causes across our local communities.



International communities

£1.0m

total invested in international communities (2015: £1.1m).

£69,000 raised by members, customers and colleagues for the Disasters Emergency Committee appeal for Yemen in 2016/17.

10th anniversary of our Fairbourne Springs partnership with the [One Foundation](#) – **£7m** raised and **1.5 million** people supported since its launch. For every litre of water we sell, 3p goes to water projects in Africa.



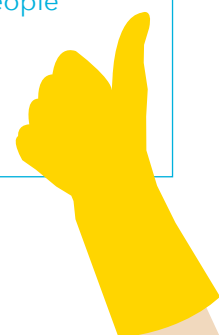
Supporting co-operatives

£1.77m

total invested in the Co-operative Movement (2015: £1.80m).

8 academy schools sponsored in the north of England. The Stoke-on-Trent academy achieved its best ever results in 2016.

We supported 'Co-ops Fortnight 2016' – enabling people to join 'Big Co-op Clean' events.



Looking ahead

As a co-op, it's our duty to make Membership meaningful. Our members own and have a say in how we are run, and when they shop or trade with us, members can share in rewards both for themselves and their local communities.

Through our Membership Scheme, when our members buy Co-op brand products and services – from a loaf of bread to a funeral plan – we put 5% of what they've spent into their Membership account to spend with us.

We also give 1% of members' spend on Co-op brand products and services to thousands of local community causes based in almost 1,500 UK communities, around our food stores and funeral homes. Members can choose the local cause they want to support by donating their '1%' to them.

From 2017, we'll be working towards our 2020 Community Vision (agreed by our Executive, Board and Members' Council in 2016) to meet the needs of our members and their diverse, local communities here in the UK. Our new Member Pioneers will be at the heart of this model – working with us, other members and their local communities, drawing on their capacity and abilities to make good things happen locally.

Our 2020 community vision

We will:

- put community at the heart of what we do;
- listen and respond to what matters most to our members and their communities;
- by the end of 2018 give £100m a year back to our members and their communities, including at least £20m to local good causes through our Local Community Fund;
- beyond money, enable and support members to co-operate locally with resources and capabilities; and
- enable all our members to choose what we support and how to get involved.



1%

of members' spend on Co-op brand products and services goes to local community causes (distributed via the Local Community Fund). This will benefit diverse causes, from social inclusion, young people and community development, through to health, education, arts and culture.



2017 targets:

Give back at least £20m a year to local causes through our Local Community Fund by the end of 2018

Launch a Community Wellbeing Index in 2017 to help us listen to, and understand, what matters most to our members, and inform what we do locally and nationally

Launch a campaign to recruit Member Pioneers by the end of 2017

Increase the number of academies we sponsor in the north of England

Ethical trade and human rights

Trade, when undertaken fairly, can significantly improve quality of life and empower communities. We're committed to ethical trade – ensuring that those who provide the products and services we buy and sell are treated fairly, and that their fundamental human rights are protected and respected. We focus on labour rights including fair reward, safe and decent working conditions, and protection from forced labour, modern slavery and harsh or inhumane treatment.

Our primary responsibility is towards our Co-op brand suppliers and supply chains. This is where we can exert the greatest influence for positive change and monitor performance. We also have a long-standing commitment to Fairtrade, supporting better prices, working conditions and terms of trade. Additionally, we recognise there are exceptional circumstances under which we would withdraw trade from a state or region.

 Read more in our Performance Data Report.

Values and Principles in action

Equity, Solidarity,
Social responsibility,
Concern for
community

Upholding labour standards

We source Co-op brand products for sale in our food stores from 1,773 sites¹ around the world that employ more than half a million workers.

There are five key components to our ethical trade programme for Co-op brand suppliers in Co-op Food:

1 We expect our suppliers to share our policy commitments².

2 We require our suppliers to sign up to Sedex – and provide us with the necessary transparency on their labour standards performance.

3 There is regular auditing and monitoring. Suppliers are identified for audit using a risk-based approach determined by their responses to Sedex questionnaires, worker profiles, country of origin and sector. 100% of our high-risk Tier 1 sites had been audited at the end of 2016 (2015: 100%). 667 sites had an independent audit in 2015/16.

4 When we find issues, we work with our suppliers to put things right, as part of our ongoing programme. In our 2015/16 audits, 2,223 issues were raised (72% are completed, we've agreed a plan to complete 21% in 2017, and 7% are outstanding and have been escalated).

5 We work collaboratively to extend our influence and share best practice. In 2016, 908 participants from 531 supplier sites attended 23 engagement and training events in Europe and Africa.

¹ 1,773 sites: 848 Tier 1 and 925 Tier 2. A Tier 1 site is a production site where goods are finished, ready for supply to, or sale by, the end company.

A Tier 2 site is a production site that supplies goods or materials to a Tier 1 site for incorporation into the finished product.

² We expect suppliers to share our commitments, as set out in, for example, our Sound Sourcing Code of Conduct and our Human Rights and Trade Policy.

Victims of modern slavery

Today, modern slavery is high on the political and business agenda. We believe that society has a responsibility to help those who've been rescued from slavery to rebuild their lives. In 2016 we began working with the charity City Hearts, to provide paid work placements in our business and, where we could provide it, permanent employment for individuals rescued from slavery in the UK. In 2017, in addition to developing further partnerships and providing more placements for victims, we'll be encouraging government and other businesses to join with us to give even more victims a chance to rebuild their lives. Read more about what we're doing in our [Modern Slavery statement](#).

Empowering communities through Fairtrade

We've been a pioneer of fairly traded goods since before the Fairtrade Mark was introduced. We have a whole host of 'Fairtrade firsts' we can be proud of, from being the first to sell Fairtrade bananas in the UK, to the first to convert an entire range of hot beverages to Fairtrade. Today, we focus on the core categories set out below, in line with the [Fairtrade Foundation's](#) own focus on where we can have the biggest impact on producers.

Performance benchmark

18.4% increase in Fairtrade sales compared to 2015 (against market growth of 7.6%)

| | | | | | | |
|---|---|--|---|--|---|---|
|  |  |  |  |  |  |  |
| wine | bananas | cocoa | coffee | tea | sugar | flowers |
| World's largest retailer of Fairtrade wine | 100% Fairtrade | 100% Co-op brand chocolate bars are Fairtrade and all Co-op brand cocoa to be sourced on Fairtrade terms | 100% Co-op brand is Fairtrade | 100% Co-op brand is Fairtrade | All bags of sugar (Co-op brand and other branded) are Fairtrade | All our rose bouquets and single stem roses are Fairtrade |

Looking ahead

In 2017 we'll be extending the fundamentals of our approach to ethical trade, to help increase supply chain visibility of the thousands of suppliers that provide us with the goods and services we use in our business (eg, IT equipment, stationery and transport services). We'll be introducing a new programme for high-risk suppliers to be registered on Sedex as part of this approach.



2017 targets:

All Co-op brand confectionery will carry the Fairtrade mark. And all the cocoa we buy for Co-op brand products will be sourced on Fairtrade terms, delivering an estimated £450,000 in Fairtrade Premiums annually

Introduce a new programme for high-risk suppliers (of goods and services we use in our businesses) to be registered on Sedex, on the basis of our ethical trade and human rights risk assessment

Roll out Advanced Ethical Training for key commercial teams in Co-op Food, underpinning our policies and processes with investment in our people

Healthy living

We know that the [UK population consumes too much saturated fat, added sugars and salt, and not enough fruit and vegetables](#). We're clear that, as a responsible business, it's now more important than ever that we ensure healthy options are accessible to everyone.

When it comes to emotional wellbeing, loneliness is reported to be as bad for health as obesity, and we know that [one in seven of our members and customers regularly feels lonely](#). We're the first major UK business to respond to this issue, and we're partnering with the British Red Cross to make a difference across UK society.

Healthier choices...for everyone

To ensure healthier choices are accessible to everyone, all products in our 'low fat' and 'reduced' ranges (eg reduced fat) are no more expensive than their standard equivalents. We're also committed to the responsible promotion of the food and alcohol we sell and, in 2016, 38% of price-based food promotions (both Co-op brand and branded) were for healthier products (2015: 32%).

We've led the way on clear and honest labelling over the years, allowing customers to make informed decisions about their purchases. Our [traffic light labelling](#) provides front-of-pack, colour-coded information on nutrition at a glance. At the end of 2016, 44% of our Co-op brand food and drink products carried no red traffic light (2015: 42%). To help customers spot healthier options, we also put [green dots](#) on the front of products, which highlight nutrition information such as high fibre, low fat or high protein.

Further, we've partnered with [SORTEDfood](#) to address a [cooking skills gap](#) among millennials. In 2017, we launched 'Now Cook It', an online course to help a generation of people learn basic cooking skills and feel engaged with cooking and food.

Nutritional content

We continue to take responsibility in reducing the amount of salt, sugar and fat across key product categories. This product reformulation remains one of the cornerstones of how we can ensure our members and customers have access to healthier options.

 Read more in our Performance Data Report.

Values and Principles in action

Self-help, Self-responsibility, Openness, and Education, training and information

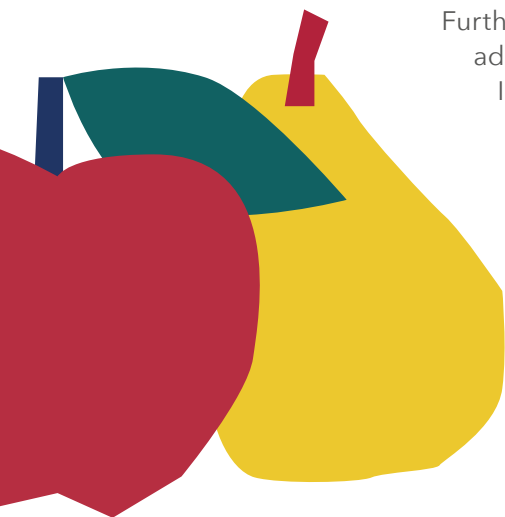


We won seven product awards, as well as overall 'Retailer of the Year', at the ['Good Choice! Quality Food Awards 2016'](#).

Salt: 93% of Co-op brand products with a salt category met the [Department of Health salt targets](#) (2015: 87%)

Sugar: 26.5 million teaspoons of sugar removed from our breakfast cereals, flavoured milk and pizzas in 2016 (based on annual sales)

Fats: 9% reduction in total fat (and 4% saturated fat) in our chilled cream cakes range in 2016



Supporting wellbeing

We've long campaigned on the issues that matter most to our members and to broader society, from fair weights and measures in the nineteenth century to fair trade and climate change more recently. In 2015, 80,000 members and colleagues voted for our Charity Partnership and as a result we're tackling loneliness with the British Red Cross. Since the start of our Charity Partnership we've raised £5m to help us do this (as at the end of 2016).

Researching

Our research into loneliness uncovered that:

18%

of people are always or often lonely

Loneliness doesn't just affect older people

Ordinary life events can be triggers for loneliness (such as divorce or becoming a new mum)

75%

of people who are always or often lonely don't know where to turn for support

Working together to tackle loneliness

Responding

We're funding new British Red Cross services in 39 locations across the UK, reconnecting up to

12,500

people experiencing loneliness back into their community

Campaigning

We will mobilise members, local communities and our own business to better recognise and respond to loneliness, by:

Supporting thousands of community groups through our Membership Scheme

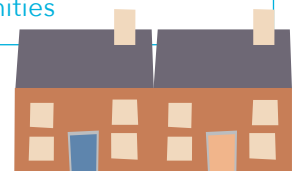
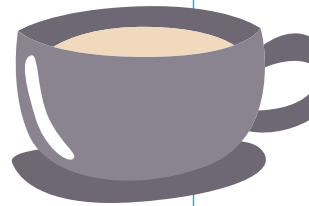
Re-launching our [Employee Assistance Programme](#) to enable colleagues to seek confidential support

Expanding and developing our social groups for the bereaved through our funeral business

Sponsoring Neighbourhood Watch to set up

30,000

new groups over four years, through our insurance business, bringing together neighbours in local communities



2017 targets:

Ensure at least 30% of Co-op brand food products that carry traffic-light labelling are healthy (ie carry no red traffic lights)

A minimum of 50% of price-based promotions (for food and non-alcoholic drinks) will be for healthier offerings by 2020

Establish new British Red Cross services, funded by our Charity Partnership, to reduce loneliness for up to 12,500 people by the end of 2018

Food and farming

We know from our members and customers that they're concerned about animal welfare and where the food they buy comes from. Our approach includes significant investment in British sourcing; establishing strong relationships with producers through our Farming Group farms; and offering products produced to good animal welfare standards for all, regardless of their budget. Beyond this, our approach extends to taking a stance against animal testing.

Respecting animal welfare

In our food business, respecting animal welfare is a core element of our work on agriculture. For all our Co-op brand fresh, frozen and prepared meat and poultry products, our minimum welfare standard, and our main focus, is Red Tractor. For higher welfare, we use RSPCA Assured or equivalent.

All farms – whether part of our Farming Groups or not – that supply our meat, dairy or poultry products may be subject to announced and unannounced visits or audits by us or an appointed independent audit body to check compliance with our animal welfare requirements.

This helps to ensure all Co-op brand products are traceable from farm to store. Our Agricultural team made 127 site visits to monitor animal welfare at sites such as farms, hatcheries and abattoirs (2015: 83). Read more about our standards and how we monitor compliance in our Performance Data Report. To benchmark our performance and provide a measure of how we're doing, we use the Business Benchmark on Farm Animal Welfare.



 Read more in our Performance Data Report.

Values and Principles in action

Honesty, Openness,
Social responsibility

Performance benchmark

Tier 2 (out of 6) achieved in the Business Benchmark on Farm Animal Welfare (BBFAW) in 2016 – that's the third year running. BBFAW classes businesses that reach Tier 2 as having 'farm animal welfare as an integral part of business strategy'

BBFAW
Business Benchmark
on Farm Animal Welfare

£99m
sales of higher welfare
fresh, frozen and
prepared products



No Co-op brand toiletry
or household products
(or their ingredients)
are tested on animals

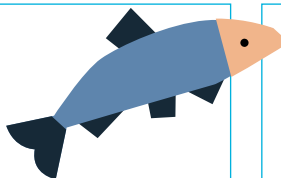
Developing our Farming Groups

More than 3,000 farmers and growers feed into our supply chain, including just over 400 British farmers and growers in our Farming Groups. By working with our Farming Groups we can support British farming and, at the same time, address issues such as animal welfare, environmental impacts and supply chain transparency. In 2016, we invested £21m in British agriculture through our Farming Groups (2015: £14m).

Our Farming Groups are based on five pillars, against which farms are audited, and rated Bronze, Silver or Gold according to performance. Our approach also involves reporting on compliance for animal welfare, which in 2016 was 90% based on data available (2015: 93%). Read more about our Farming Groups in our [Performance Data Report](#).

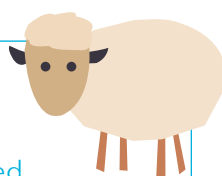
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We had eight Farming Groups by the end of 2016 including four new groups covering standard beef and lamb, eggs and turkey. We'll launch new groups for salmon and produce (that's fruit, vegetables and horticulture) in 2017.



198

independent audits conducted of our Farming Groups' compliance to our five pillar model (2015: 213)



Co-op Enviro-Map

Over the next three years we'll be using our Co-op Enviro-Map to conduct carbon footprint assessments and biodiversity surveys across our Farming Groups. This will allow farmers to benchmark their business performance, improve efficiency and reduce environmental impact. Read our [Performance Data Report](#) to find out how our Dairy Farming Group got on in 2016.

£1.6bn

invested in sourcing Co-op brand British meat, produce, and dairy products since 2015

Supporting British farming

Since 2015, we've invested £1.6bn in sourcing Co-op brand British meat, produce and dairy products, surpassing our target to reach '£1.5bn by the end of 2018' two years early. This has been a significant undertaking and one which reflects our commitment to British farming. We'll continue to explore ways of supporting British farming with financial and other kinds of support. In 2016, this included sponsoring [Love British Food](#) and bringing farmers and suppliers into stores to celebrate British Food Fortnight. We also held our first Food and Farming conference, with over 300 delegates and a focus on our British sourcing.

100% British

Co-op brand fresh beef and pork, chicken, sausages, duck, turkey, eggs and milk, salmon, yoghurt and butter (2015: 100%)



2017 targets:

Extend our 100% British commitment to include fresh lamb and bacon from May 2017 (in addition to our current British range)

Maintain Tier 2 in the Business Benchmark on Farm Animal Welfare in 2017



Environment and resource use

There are limits to the earth's resources – from the materials we can extract, to the waste that can be absorbed. Exceeding these limits is ultimately unsustainable. As a co-op, we're led by our Values and Principles and this means that part of our approach is to minimise and mitigate our impact on the natural world.

The way we understand our environmental impacts has developed over the years, and today we report on our performance in three areas: climate change, waste and pollution, and resource use. We recognise it's not enough simply to comply with legislation; we must go beyond this to ensure we minimise our impact on the environment.

We aim to:

Reduce the environmental impacts of our direct operations

Set high expectations of our suppliers, and reduce the impact of our own products and services

Campaign and champion issues where appropriate, such as when an industry-wide or national response is needed



Read more in our Performance Data Report.

Values and Principles in action

Solidarity, Social responsibility, Co-operation among co-operatives, Concern for community

46%
reduction in our direct GHG emissions since 2006 (9% since 2015)

99%
of our electricity is from renewables²

1 million tonnes of carbon emissions offset.
With our Ecoinsurance product, we've been offsetting carbon emissions for our customers for over 10 years and by early 2017, 1 million tonnes of carbon emissions had been offset.

Climate change

Greenhouse gas (GHG) emissions from human activity are causing the climate to change. This is something we contribute to – through our operations, our supply chain and our products and services – and it poses a risk to our business, as well as communities across the globe.

We recognised the need to act on climate change long before most businesses and we've reported on our climate impacts since 2005. We purchase renewable electricity from UK wind farms and small-scale hydro-power, both for our own use and on behalf of other co-operatives and organisations; and even offset a proportion of carbon emissions for our customers and from some of our services.

Our long-term aim is to halve our direct GHG emissions by 2020 compared to 2006. After 10 years we're almost there, with a 46% reduction since 2006. This is largely due to using less energy; in 2016 we were close to using half as much electricity and fuel as we did in 2006¹.



2017 target:

Reduce direct GHG emissions from operations by 50% by 2020, compared with 2006

- 1 45% reduction in total MWh energy used in 2016 compared to 2006. This is a like-for-like comparison. In 2016, we saw a 9% decrease in direct GHG emissions since 2015, driven by a decrease in energy used (down 4% since 2015) but also due to UK grid electricity having a lower carbon intensity in 2016.
- 2 The remaining 1% covers new sites not yet on renewable supply.

Waste

In a world of finite resources, businesses must do better at reducing waste and reusing materials to preserve resources. We generate waste across our businesses, with the majority from Co-op Food (due to its scale and nature). While much of our waste impact is from our direct operations, we also pay particular attention to the packaging of our food products, which is ultimately disposed of by our customers.

The amount of waste we produce has decreased by 34% since 2006 but increased by 8% compared to last year. We believe this might be due partly to increased sales and a focus on availability of fresh produce in our food business. For 2017 a dedicated waste working group has been set up to manage this issue, and we're also working to ensure that safe, edible surplus food goes to feed people.

One of our key priorities is to improve the recyclability of our product packaging. We've started by moving to a new, more relevant and stretching target on this. We previously looked at how much of our packaging was recyclable by weight. This meant that glass packaging contributed more to our performance than lighter, plastic packaging (2015: 81% widely recycled by weight). We now measure by product line, which means, for example, that a glass bottle and a plastic tray are seen equally. This reflects the concerns of customers and gives us a clearer view of where we need to focus our efforts. We've assessed that 46% of Co-op brand products by line are in packaging material that is easy to recycle³.

96%

of total waste was reused, recycled or recovered in our own operations (2015: 94% ^R)



Redistributing surplus food

Food that goes past its 'best before' date is not necessarily inedible, nor does it need to go to waste. We already work with the charity FareShare to redistribute surplus food from our depots. In 2016, we worked with The Real Junk Food Project and other local groups to pilot new ways of redistributing surplus food directly from stores to local charities and community groups. As a result we've developed a plan to use our existing community relationships to redistribute surplus food. This provides a solution that can be locally managed to maximise engagement, helping us to reduce food waste, while also reinforcing relationships in the local communities we serve.

Innovating to increase recycling

Simplifying our plastic trays for meat, poultry and fish has helped to reduce packaging waste. In 2016 we worked with our suppliers to pioneer the removal of the heat-seal layer from our cooked meat trays, meaning the tray is now a single material and therefore easier and more financially viable to recycle. We're the first retailer to make this change.



2017 targets:

80% of our packaging (by product line) will be easy to recycle by 2020

Roll out a process for redistributing surplus food from our stores to charities and community groups

³ We define 'easy to recycle' as being labelled 'widely recycled', 'recycle with carrier bags in larger stores' or, for beverage containers, 'widely recycled at collection point, check locally for kerbside'. See www.oprl.org.uk.

^R Restated to account for better estimate of waste from our Funeralcare properties which have individual waste arrangements in their local area. Waste from these sites was previously underestimated.

Resource use

The ingredients and raw materials we use in our business and for our products can have a significant impact on the natural environment and on biodiversity – be it in waterways, agricultural land, soil or forests.

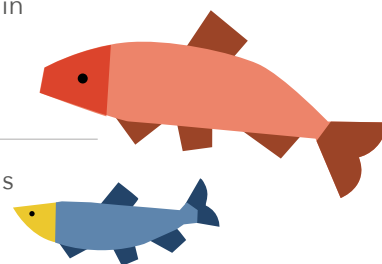
Our approach focuses on the responsible sourcing of key resources which have the greatest impact on their environments (shown below). Read more in our [Performance Data Report](#).

How we manage resources

Fish

We aim to be one of the UK's most responsible retailers of fish

- 61% of Co-op brand fish products sourced was wild caught (sourced from marine fisheries) and 39% was farmed.
- Wild-caught fish brings environmental challenges, with overfishing and destructive catch methods. Since 2008, we risk-assess the fish we source and address any issues in our supply chain. 96% of wild-caught fish was from low or medium-risk fisheries (2015: 85%).



Wood and paper

We ensure that the wood and paper used in our products comes from a responsible source

- 100% of the wood and paper used in products for Co-op Food is of known origin – 97% comes from [Forest Stewardship Council](#) (FSC) or recycled sources (2015: 96%).
- 96% of coffins manufactured by Co-op Funeralcare were made from FSC-certified wood (2015: 96%).



Palm oil

We aim to use sustainably sourced palm oil in our products

- Palm oil production has impacts on deforestation, and thereby climate change, habitat loss and communities. To ensure we don't contribute to this, 100% of the palm oil in our products has been certified by the [Roundtable on Sustainable Palm Oil](#) since 2012.

9/9

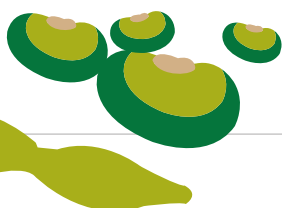
received in the WWF Palm Oil Scorecard 2016, achieving 'Leading the Way' on essential actions



Soy

We work with suppliers to find a solution to the responsible sourcing of soy

- Global demand for soy production is linked to many concerns, including the destruction of natural habitats and communities, and intensive farming.
- Our most significant use of soy is in animal feed for livestock for our meat products. The responsible soy market is relatively young and to date, little responsibly certified soy has been used in UK animal feed. We covered just under 10% of soy used in animal feed through [Round Table on Responsible Soy](#) credits.



Influencing in action: responsible sourcing of fish

Beyond our Co-op brand products, we can try to influence other brands in their responsible sourcing of natural materials, and we can do that by leading the way ourselves.

Co-op brand tuna is already caught responsibly – by pole and line, not nets. But we're going further, to ensure that the fisheries we source from are also either [Marine Stewardship Council](#) certified or part of a Fisheries Improvement Project (a five-year journey to become MSC certified). In a first for UK retailers, we're also asking our branded suppliers, John West and Prince's, to do the same – to source from MSC-certified fisheries or from those in a Fisheries Improvement Project by the end of 2017.

Water

We seek to reduce water usage in our own business operations, and in 2016 we had reduced this by 19% per site on average, since 2006.

However, we also recognise that our biggest water impact is in our supply chains, especially in agriculture. We have eight Farming Groups in Co-op Food, made up of 400 farmers and growers. 67% of these farms have active plans in place to reduce water usage, and 94% have water pollution controls in place.

We also recognise that access to clean water is a basic human need – one that remains unfulfilled in many of the world's poorest communities. Our partnership with the [One Foundation](#) has raised £7m from sales of our Fairbourne Springs bottled water and supported 1.5 million people over 10 years, through water, hygiene and sanitation projects in Africa. In addition, in 2016 we donated £50,000 from sales of Fairbourne Springs water to help provide clean water supplies in Yemen. This will benefit over 13,000 people experiencing malnutrition and water scarcity as a result of ongoing civil war in Yemen, helping to fund water network repairs, rehabilitating supplies, 20 rain harvesting systems and 6,000 water filters.



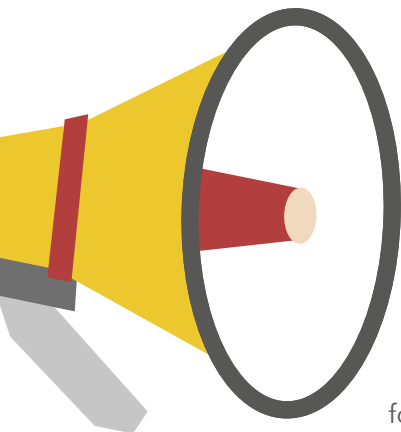
2017 targets:

Maintain our position as one of the UK's most responsible retailers of fish, and increase the number of MSC-label products we sell

Ensure palm oil used in all Co-op brand products comes from a sustainable, segregated Certified Sustainable Palm Oil source by 2020 by reducing reliance on credits

Develop our Responsible Soy roadmap, aiming to bring us into line with our work on other areas of concern for deforestation such as wood, paper and palm oil

Colleague wellbeing



We're committed to supporting the wellbeing of our 69,000 colleagues. We work to ensure they feel valued and that their contribution is recognised. We listen to our colleagues and focus on doing what matters most to them, because we want them to be healthy, motivated and able to make their best contribution at work.

Colleague engagement, rates of absence and voluntary turnover are important indicators for us because we know there are links between performance in these areas and colleague wellbeing.

While we saw an improvement in our 2016 engagement score, we've seen a small increase in absence rates and voluntary turnover since 2015. In response, we'll be providing support to our colleagues as a key priority as we look ahead to 2017 (see 'Looking ahead').

What colleagues are telling us

Colleague engagement is a broad measure of how committed and motivated our colleagues are at work – important factors in delivering strong business performance. We measure engagement via our colleague survey 'Talkback' using an index, which reached 78% in 2016 – four points higher than 2015 and the highest it's been since 2010. 82% of colleagues responded to the survey.

Our Group Executive has taken on board feedback about where we need to improve in areas such as performance management, colleague involvement in shaping our future plans, and ensuring our leaders model the behaviours that we want all colleagues to adopt. We also saw some big improvements in key areas:

I enjoy working at the Co-op: **81%** (+2% since 2015)

The Co-op gives me the opportunity to play an active role in the community: **77%** (+11%)

I am clear about how my role contributes to the delivery of the Co-op's strategy: **89%** (+9%)

I believe there are opportunities to progress within the Co-op: **72%** (+7%)

Performance benchmark

We compared our engagement score (78%) to a benchmark of other retailers (73%) including Sainsbury's, Matalan, Morrisons, Asda and Boots. Our engagement index score has recovered significantly over the last few years, and this is against the trend when compared to other retailers.

 Read more in our Performance Data Report.

Values and Principles in action

Self-help, Self-responsibility, Caring for others, and Education, training and information

78%
2016 colleague engagement score (four points higher than 2015)

We were named a '**Top 100 Apprenticeship Employer**' in 2016. Read more about our work on apprenticeships in our [Performance Data Report](#).



Back to Being Co-op

Our colleagues are our greatest champions, and we want to empower them to bring our Co-op difference to life. That's why we invested in our largest ever engagement with colleagues. In our unique, interactive 'Back to Being Co-op' sessions, we covered our history and identity, our Membership Scheme, and our Ways of Being Co-op. Colleagues from across the business reconnected with our proud heritage and exciting future - rediscovering what it means to be part of our Co-op.

54,000

colleagues
participated

81,000

hours of colleague
engagement

4,648

sessions
held

Looking ahead

In 2017, colleague wellbeing will be a business-wide priority and forms part of our response to address rates of absence and voluntary turnover. In line with our newly-developed wellbeing strategy, we'll improve our preventative and responsive health services, including psychological support and confidential advice services. We'll give colleagues the help they need to identify and prevent potential health and wellbeing problems. Where such issues affect colleagues at work (through absence, for example), we'll provide clear pathways to aid recovery and support their return to work in an appropriate and timely way. To do this we'll make our existing support services (such as our [Employee Assistance Programme](#)) more visible and easier to access, as well as adding new services based on colleagues' needs.

We also recognise that financial wellbeing is important to our colleagues and is an area where we can do more to help. In 2017 we'll provide information, tools and practical support to help colleagues make the most of their personal finances and to address financial problems if they arise. As we shape our approach we'll ask colleagues what's important to them and how we can help.

4.10%

absence rate (2015:
4.01%) UK average:
2.8% ([CIPD](#))

24%

voluntary turnover across
our business (2015: 22%)¹



2017 targets:

Maintain levels of colleague engagement as measured by our engagement index

Increase colleagues' use of the Employee Assistance Programme

Introduce new tools and resources to help colleagues with personal budgeting, savings and debt management



¹ Includes resignations but excludes, for example, redundancies. Data varies between businesses. See our [Performance Data Report](#).

Diversity and inclusion

Equality has been a founding principle of co-operatives, since the Rochdale Pioneers gave members equal rights and equal benefits. Today, equality and diversity are key in helping us to create an inclusive Co-op. Inclusion is not only a moral imperative but a proven commercial advantage as well. We embrace individual differences, whether legally protected (such as age, religion and gender), or other areas like social background, where people come from, or caring responsibilities.

In 2016, we launched our Board-approved Diversity and Inclusion Strategy to create a more inclusive Co-op. Over the long term we'll focus on increasing the diversity of our colleagues, customers, members and suppliers, as well as our products and services. We'll pay particular attention to building respect in the workplace, fostering diversity, creating a more inclusive recruitment experience, and a diversity and inclusion learning programme for colleagues.

We report our colleague demographics and, to put this in context, we benchmark ourselves against the UK population (2011 Census). In our [Performance Data Report](#), we also report on how we support our diverse mix of colleagues through our networks focusing on gender, and the lesbian, gay, bisexual and transgender community.

 Read more in our Performance Data Report.

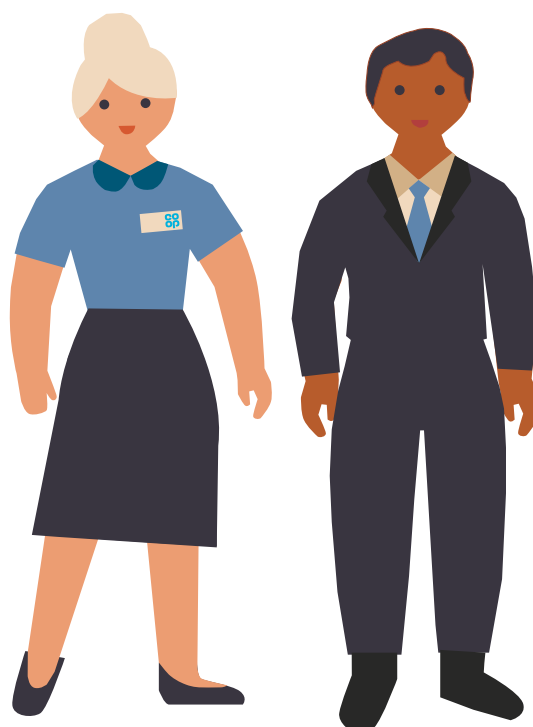
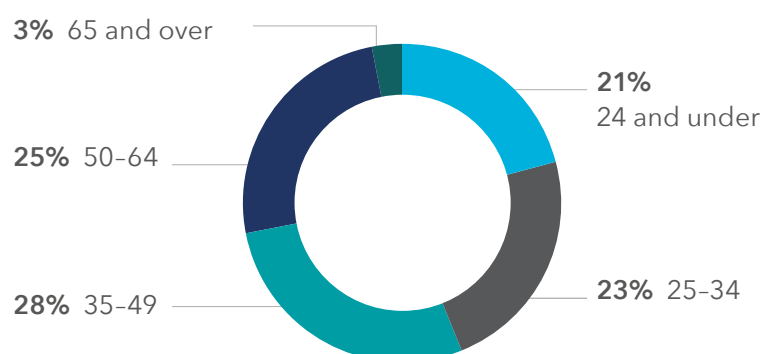
Values and Principles in action

Equality, Equity, Solidarity, Caring for others, and Voluntary and open Membership

Age

The UK has an ageing population and organisations now have up to five generations in the workplace for the first time. In 2016, we completed a three-year project to identify how we can better support our older colleagues. This includes encouraging their continued employment if that's what they choose – we don't enforce a retirement age. In addition we conducted a survey of younger people, and we found that 25% were motivated by a business's reputation, and that making a positive difference had greater appeal than climbing the career ladder.

Colleagues in each age band

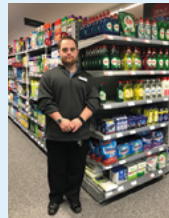


Gender, ethnicity and disability

We're required by law to capture information on colleagues' gender and age. However it's up to colleagues if they want to share more about their backgrounds such as their ethnicity or disability. For the first time this year, we're reporting data on ethnicity and disability from colleagues' responses to our annual survey Talkback¹ to which 82% of colleagues responded overall in 2016 (with 75% and 73% responding to tell us about their ethnicity/disability respectively). We know our colleague population does not mirror closely enough that of the UK, and that's something we're working to address as part of our strategy to build a more inclusive Co-op.

Inclusion in action

"My name is Tom and I live with care workers who provide me with 24/7 care. I have difficulties with speech and learning because I have Down's Syndrome. I'd wanted to work for a long time but couldn't find the help or support to do this. I found out a Co-op was opening near me, and with the help of the Co-op, I was able to start working. My colleagues helped me quite a bit until I knew what I had to do with my tasks. I love going to work and I'd like to thank the Co-op for letting me show what I can do and for giving me some independence."



56%

of our colleagues
(and 41% of managers)
are female
(UK population: 51%)²

4%

identify as having
a disability
(UK population: 9%)

9%

identify as belonging to
an Ethnic Minority group
(UK population: 14%)³

36%

have dependant or
caring responsibilities

Gender pay reporting

Legislation will require employers with 250 or more employees to publish statutory calculations showing any pay gaps between male and female colleagues - something we'll publish in 2018. We're committed to meeting the requirements of reporting but more importantly to understanding the underlying reasons for any differences in pay, and how we can address them.



The Stonewall Workplace Equality Index 2017

ranked us 31st in its
index of Britain's top
100 employers actively
encouraging 'gay-friendly'
places to work in 2016
(2016 Index: ranked 72nd)

Looking ahead

In line with our long-term Diversity and Inclusion Strategy we'll work to embed best practice and measurable targets right across our business. Our ambition is to foster and support a diverse workforce that better reflects the communities we serve and is true to our inclusive heritage.



2017 targets:

Increase levels of respect at work, measured by colleagues telling us they are treated fairly via our colleague survey 'Talkback'

Close the gap between our colleague population and the UK population, in terms of Ethnic Minority and disability representation

Increase representation of women in senior leadership⁴ from 29% (as at the end of 2016)

¹ As opposed to data from our HR database in previous years, on which fewer colleagues have posted information about disability/ethnicity.

² Based on the 2011 Census.

³ Ibid.

⁴ Measured by those in A-C grades.

Health and safety

Making sure our people – all those we work with and all those we serve – are safe is a priority for our business and fundamental for our licence to operate.

In 2016, we had a strong focus on health and safety because our performance wasn't at the levels we expect of ourselves – we needed to do more to reduce risks and improve our performance. We carried out an in-depth review across our businesses, looking for examples of good practice as well as gaps that we needed to address. We followed this with actions to raise the profile of health and safety, including safety programmes such as 'Safe and Secure' (see more on this on [page 25](#)) and establishing health and safety committees in our businesses.

As well as encouraging better reporting of accidents, we've launched a self-service system to make the reporting process as simple as possible.

 Read more in our Performance Data Report.

Values and Principles in action

Self-help, Self-responsibility, Social responsibility, Caring for others, and Education, training and information

Reporting accidents

We focused on improving how we monitor and report data on colleague accidents – as it's a key indicator of how effectively we're managing workplace safety. While we did see an increase in the overall number of colleague accidents in 2016 compared to last year, this wasn't entirely unexpected given our focus on better reporting. We did, however, see a fall in the number of serious, reportable accidents. The Health and Safety Executive defines what we mean by [reportable accidents](#).



5,795
non-reportable
accidents in 2016
(2015: 5,110 ^R)

That's 8,360 per
100,000 colleagues
(2015: 7,302 ^R)

338
reportable accidents
in 2016 (2015: 385 ^R)

That's 488 per
100,000 colleagues
(2015: 550 ^R)

^R Restated in line with the methodology used for calculating 2016 data. Figures represent all incidents reported via our internal reporting system. This includes casualty accidents and crime, and not all are necessarily work related.

Improving safety

To bring health and safety to the forefront of our colleagues' minds, we've launched a number of safety programmes across all of our businesses. This includes the 'Safe and Secure' programme within our food business – which is where we see a high proportion of all our accidents.

With a dedicated team in our Support Centre, we tackled a different risk area every six weeks. Topics included fire checks, food safety, premises hygiene, personal safety and proactive hazard management. For each topic we provided briefing packs, training modules, simple guidance and clear advice on who to contact for support – all aimed at embedding safe practices into daily routines.

The programme has helped reinforce and improve health and safety in stores. For example, we've seen increased compliance scores which we monitor through store audits as well as improved fire-risk management. Similar programmes in Co-op Funeralcare and Logistics have also driven reductions in reportable incidents in their respective areas.

Health, safety and wellbeing

As well as focusing on health and safety from a risk and compliance perspective, we also recognise that there are broad overlaps between health, safety and wellbeing. We report on how we encourage [Healthy living](#) – including physical and emotional wellbeing – and we also report specifically on how we're promoting [Colleague wellbeing](#).

Looking ahead

We've still got more to do on health and safety, and in 2017 we'll be taking a proactive approach by embedding a new health and safety management framework across our businesses. We'll continue to monitor and report on colleague accidents with a view to decreasing the number of serious, reportable accidents.



2017 target:

Set a clear strategic direction for safety management across our Co-op (via a management framework)



Our Values and Principles

Co-operatives are based on the values of **self-help, self-responsibility, democracy, equality, equity and solidarity**. In the tradition of their founders, co-operative members believe in the ethical values of **honesty, openness, social responsibility and caring for others**.

Our Values and Principles are not just fine words – they are very real and help shape how we respond to the issues that matter to us and our members.

The seven co-operative principles are guidelines by which we put our values into practice – see below for how we put our principles in action, through the activities in our business and in our Membership.

Our Principles in action



1 Voluntary and open Membership

- We've set ourselves a target of recruiting 1 million new members by the end of 2017.
- 0.5 million new members joined us in 2016 (0.4 million joined us after we launched our Membership Scheme).




2 Democratic member control

- It's 'One Member, One Vote'. 99,000 members voted in our 2016 AGM, and Board and Council elections. Voter turnout among eligible members increased from 3.6% in 2015 to 4.7% in 2016.

3 Member economic participation

- We had 4 million active members in 2016.
- Our Membership Scheme rewards our members with 5% of their spend on Co-op brand products and services. Members had earned £16m (of which £4.4m was redeemed) by the end of 2016.



4 Autonomy and independence

- Unlike other businesses, we're not always beholden to deliver short-term returns. We can take the necessary long-term perspective to drive change for the benefit of our business, members and communities. For example, we've been committed to Fairtrade for 25 years.




5 Education, training and information

- We sponsor eight academy schools in the north of England, and in 2016 the Stoke-on-Trent academy achieved its best ever results.
- We will create over 1,000 apprenticeship opportunities in our businesses in 2017.


6 Co-operation among co-operatives

- We supported the Co-operative Movement with £1.77m in 2016.
- We share the economic advantages of our size and scale with others through Federal Retail and Trading Services Limited.



7 Concern for community

- Our Membership Scheme rewards our members' local communities. 1% of our members' spend on Co-op brand products and services goes to local community causes when they shop or trade with us.
- We've established a new co-operative way of working with our Executives, senior management and representatives from our Members' Council, working together to oversee our Group-wide approach to ethics and sustainability.



Sustainable Development Goals

The United Nations Sustainable Development Goals (SDGs) focus on addressing the world's biggest challenges. We recognise we have a role to play in contributing to the success of the 17 goals and we report against these below. For a long time now, much of the work we do has supported, and has been aligned with the goals. In January 2017 we signed an [open letter](#) to the Government calling on them to acknowledge the importance of the goals, and pledging to work with them to ensure they are delivered in the UK and around the world.

Sustainable Development Goal



- Our work on Fairtrade helps to ensure that workers in our global supply chains get a fairer deal. We saw an 18.4% increase in Fairtrade sales in 2016 vs 2015 (vs market growth of 7.6%).



- We're committed to safeguarding the security and supply of food. We aim to reduce the risk of environmental impacts on our business and in the wider supply chain.



- We're campaigning to tackle loneliness with the British Red Cross and aim to reconnect up to 12,500 people experiencing loneliness back into their communities.



- We were named a 'Top 100 Apprenticeship Employer' in 2016 by the National Apprenticeship Service. And with our Fairtrade Premiums we've helped to fund a school for students in a remote village in Argentina.



- 56% of colleagues and 41% of our managers are female.
- Our colleague 'Aspire' network enables and encourages female peer support at work.



- We celebrated the 10th anniversary of our Fairbourne Springs partnership with the One Foundation. £7m has been raised and 1.5 million people supported over this time.



- Through our carbon offsetting we support the provision of fuel efficient stoves in Cambodia, reducing the amount of wood needed for cooking.



- We are a member of the Ethical Trading Initiative, a founder of Stronger Together, and we continue to support the fight against modern slavery.

Sustainable Development Goal



- Through our carbon offsetting we support two wind farms in India, facilitating the development of sustainable infrastructure in the country.



- We're the first business to sign Fair Funerals' new enhanced pledge to tackle funeral poverty.



- In 2016 we invested £10.8m in UK communities and £1m in international communities.



- By 2020 we want 80% of our food product packaging to be easy to recycle by line, and our latest data shows we're at 46%.



- We have a long-standing target to reduce our direct greenhouse emissions (ie from our own operations) by 50% by 2020, compared with 2006.



- We aim to be one of the UK's most responsible retailers of fish. In 2016, 96% of wild-caught fish was from low or medium-risk fisheries.



- We're committed to the protection of natural resources, and aim to source responsibly wherever possible, from wood to palm oil and soy.



- Our Human Rights and Trade Policy identifies the exceptional conditions under which we will suspend trade with a nation state or designated region.



- We partner with the International Co-operatives Alliance to further the aims of the SDGs through co-operation.

Performance Data Report

We aim to be open and honest in all that we do, including our reporting. That's why, in addition to our Co-op Way Report Overview, this section contains supplementary information to help readers understand more about our performance. It contains the data and the detail that we know some people want to access, across each of our priority areas.

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**Business ethics
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Ethical trade
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resource use

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Business ethics and behaviour

Distribution of economic value added

'Economic value added' measures the financial benefits that commercial organisations deliver to stakeholders. Our reporting is based on the [Global Reporting Initiative's](#) indicator on 'direct economic value generated and distributed'.

While no Member Dividend was paid in 2016, we did reward members with vouchers and prizes and we launched our Membership Scheme.

Distribution of economic value added (£m)

| | 2013 | 2014 | 2015 | 2016 |
|--|--|--|--|--|
| Colleague wages and pension benefits | 1,298 | 1,223 | 1,174 | 1,214 |
| Payments to government (mainly business rates, employers' national insurance and irrecoverable VAT) | 159 | 188 | 191 | 199 |
| Distribution to members | 62 (including 12.7 in promotional vouchers) | 23 (including 22 in promotional vouchers and 0.6 from Swipe and Win payments) | 28 (including 24 in promotional vouchers and 3.6 from Swipe and Win payments) | 23 (including 4.4 redeemed through members' 5% reward, 15.2 in promotional vouchers and 2.9 from Swipe and Win payments) |
| Community investment | 15 | 8 | 6 | 11 |
| Payments to providers of capital (interest paid to bankers or bondholders for loans) | 101 | 114 | 83 | 82 |
| Set aside for capital maintenance and future growth (ie after accounting for other payments, including payments to government, members and community investment) | 316 | 287 | 270 | 169 |
| Total | 1,951 | 1,843 | 1,752 | 1,698 |

Public policy engagement

As a responsible business, we continue to use our influence to campaign for a fairer and more sustainable world, and are open about our lobbying and its outcomes.

For reporting purposes, 'engagement' is restricted to instances where we've raised or supported a significant initiative relating to issues identified in our [Co-op Way Policy Framework](#).

| Issue | Audience | Engagement | Policy position |
|--|--|---|---|
| Business ethics and behaviour | | | |
| Open Data | Former Department for Business, Innovation and Skills | Written submission to the consultation on 'Moving Land Registry operations to the private sector'. | We oppose any wholesale privatisation of the Land Registry or its assets, and believe that the data should remain in public ownership. |
| Digital Economy | Members of the Digital Economy Bill Commons Scrutiny Committee | Written submission and oral evidence to the Scrutiny Committee. | We set out to be a trusted custodian and responsible broker of data for our members. We welcome the essence of the Bill, and are committed to widening inclusivity and accessibility of digital services. Aside from legislation, it is vital that government doesn't hamper organisations' capacity to connect datasets. |
| Healthy living | | | |
| Consensus Action on Salt and Health, and on Sugar | MPs and Peers in Westminster | Exhibited Co-op brand products as an illustration of policy credentials at receptions organised by Consensus Action on Salt and Health (CASH) and Consensus Action on Sugar. | We aim to help our members and customers make healthy and informed choices, and have both sugar and salt reduction targets for Co-op brand products. |
| Sugar Levy | Department of Health | We responded directly to the consultation on the 'Soft Drinks Industry Levy' (led by HM Treasury), and we engaged with a range of trade associations, to inform an industry-level response. | While we didn't support or oppose the proposed sugar levy, we did respond to the Government's consultation on how any such proposed levy would be designed or implemented. We also set out the broad range of measures we take to promote healthier choices for everyone, including via the reformulation of Co-op brand products to reduce the amount of sugar they contain. |
| Childhood obesity and sugar reduction | Public Health England (PHE) | Meetings and regular contact, to help shape PHE strategy and to update on the proactive steps we take to support healthy choices. | As above. We've also collaborated with PHE to develop sugar targets which the food industry will work towards. We'll continue to work towards our own internal targets in the interim while we wait for government targets to be introduced. |

**Business ethics
and behaviour**

Community

Ethical trade
and human rights

Healthy living

Food and farming

Environment and
resource use

Colleague wellbeing

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Health and safety

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| Issue | Audience | Engagement | Policy position |
|--|--|--|--|
| Tackling loneliness | Government, 10 Downing Street, Cabinet Office, Department of Health, Department for Communities and Local Government, devolved governments, political parties | Ongoing engagement and briefings at the party conferences of Labour and the Conservatives in autumn 2016, and attendance by local Councillors at our campaign launch event in December 2016, when we published our report on the triggers of loneliness, with the British Red Cross. And, we are the only business on the Jo Cox Commission on Loneliness. | We engaged a broad range of political bodies in support of our campaign to tackle loneliness, to raise its profile as a public policy issue. Read more about our campaign with the British Red Cross here . |
| Food and farming | | | |
| Food and Farming plan | Defra officials | Ongoing engagement, both directly and through retail sector forums, with officials given the potential significance of the Government's 25 year strategic plan (postponed following the EU referendum). | Backing British is a cornerstone of our approach to food and farming. Our five-point charter sets out clear principles to foster closer relationships with, and support for, our local suppliers. Read more here . |
| Diversity and inclusion | | | |
| Colleagues who are EU Nationals | Colleagues, members, Parliamentarians and officials | Written engagement via a series of open letters, following the result of the EU referendum on 23 June, calling on the Prime Minister to quickly resolve the uncertainty faced by EU nationals working in the UK. | We celebrate the diversity of the communities in which we trade, and want to create an inclusive culture for our colleagues, wherever they come from. |
| Community | | | |
| Distribution of funds from our Local Community Fund and the carrier bag levy for politicians in England and Wales | Government departments in all four UK nations All Members of Parliament (MPs), Members of the Scottish Parliament (MSPs), Welsh Assembly (AMs) and Northern Ireland Assembly (MLAs) | Engagement with all MPs, MSPs, AMs and MLAs about our plans to work with local community groups via funds raised through our Membership Scheme throughout the UK (as well as funds raised through the carrier bag levy in England and Wales). | Our Membership Scheme puts our members back at the heart of our Co-op, rewarding both members and their communities when they trade with us. |
| Reforming business rates | Department for Communities and Local Government | Written response to the consultation on 'Check, Challenge, Appeal: Reforming business rates appeals.' Engagement with key trade associations, including the British Retail Consortium, to inform the industry-level response. | We welcome the potential of local economic decision-making and the reforms that will pave the way for the implementation of 100% business rates retention, but believe that there needs to be a series of reforms, including more frequent revaluations, in order to enhance the effectiveness of the rating system. |

Trade and business association Membership fees

We disclose all of our principal Memberships, subscription fees and donations to trade and business associations that engage in public policy activities.

Donations and subscriptions, 2016

| | |
|---|-------------------|
| <u>Co-operatives UK</u> | £729,000 |
| <u>Association of British Insurers</u> | £219,502 |
| <u>National Association of Funeral Directors</u> | £203,000 |
| <u>British Retail Consortium</u> | £153,812 |
| <u>The Law Society</u> | £102,060 |
| <u>International Co-operative Alliance</u> | £59,424 |
| <u>IGD Services</u> | £48,074 |
| <u>Co-operative Employers Association</u> | £48,020 |
| <u>Ethical Trading Initiative</u> | £36,928 |
| <u>Funeral Planning Authority</u> | £36,000 |
| <u>Downstream Fuel Association</u> | £34,680 |
| <u>Business in the Community</u> | £24,600 |
| <u>The Wine and Spirit Trade Association</u> | £21,649 |
| <u>British Institute of Embalmers</u> | £16,000 |
| <u>The Association of Convenience Stores</u> | £15,810 |
| <u>Forum for the Future</u> | £15,000 |
| <u>Inclusive Employers</u> | £10,000 |
| <u>Scottish Grocers Federation</u> | £7,500 |
| <u>International Co-operative and Mutual Insurance Federation</u> | £7,452 |
| <u>Institute of Business Ethics</u> | £6,000 |
| <u>British Nutrition Foundation</u> | £5,925 |
| <u>National Association of Memorial Masons</u> | £5,100 |
| <u>Jo Cox Commission on Loneliness</u> | £5,000 |
| <u>Federation of Burial and Cremation Authorities</u> | £4,829 |
| <u>LBG</u> | £4,600 |
| <u>Business Disability Forum</u> | £3,400 |
| <u>Opportunity Now</u> | £2,800 |
| <u>Race for Opportunity</u> | £2,800 |
| <u>Roundtable on Sustainable Palm Oil</u> | £2,500 |
| <u>Stonewall</u> | £2,500 |
| <u>Enterprise Forum Ltd</u> | £2,100 |
| <u>WWF Forest and Trade Network</u> | £1,500 |
| <u>Food Ethics Council</u> | £1,450 |
| <u>Institute of Crematorium & Cemetery Management</u> | £1,340 |
| <u>Association of Private Crematoria and Cemeteries</u> | £1,142 |
| Total | £1,841,497 |

| | | |
|--------------------------------------|------------------------------|-------------------------|
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Screening of Co-op Insurance investment opportunities

Since 2011 all investments made by our insurance business in fixed-income bonds to underpin home and motor premiums have been screened against its Ethical Policy. The screening is carried out by the dedicated Responsible Investment team within Royal London Asset Management (CIS) which provides asset management services. Any potentially problematic investments are referred to an internal team for assessment and final recommendation.

In 2016, 11 fixed-income investment opportunities were screened. Three were referred for assessment and none of these were declined.

Compliance with Groceries Supply Code of Practice ('the Code')

In our food business our supplier relationships are governed by the Code, which contains certain rights and obligations on us and our grocery suppliers. One of those obligations is to submit an annual compliance report to the Risk and Audit Committee for approval and then to the Groceries Code Adjudicator and the Competition and Markets Authority.

The Risk and Audit Committee looked at the compliance report on 27 March 2017. The Committee noted that we had remained compliant with the Code and that where allegations of breaches of the Code had been raised by suppliers, all were thoroughly investigated and most resolved. We continue to invest in improving our processes and systems. We have maintained an extensive programme of training for colleagues which is supported by both regular and targeted compliance reviews and audits. Suppliers are encouraged to contact our Code Compliance Officer (gscop.compliance@coop.co.uk) if they want more information.

Speak Up

We have a Code of Business Conduct which outlines how we operate in respect of our colleagues. As part of this Code, we have a Whistleblowing Policy and an independent, impartial service called Speak Up for colleagues wishing to report misconduct by a Co-op colleague.

A summary of calls is presented to our Risk and Audit Committee. In 2016, 187 calls were received (2015: 246) and of these, 84 reports were recorded (2015: 84 ^R). Calls include those asking for advice and where the caller decides not to make a report. 'Reports' relate to the calls that are progressed to the business.

An independent benchmarking exercise shows that overall we received slightly more calls compared to similar-sized organisations but we did see a drop in overall calls compared to 2015.

^R Restated to exclude three reports.

Community

UK community investment

Our community activities in 2016 led to a total UK investment of £10.8m. We use the [LBG](#) methodology to collate and present our community investment data.

Total UK community investment (£m)

| | 2014 | 2015 | 2016 |
|--|------------|------------|----------------|
| Cash | 1.5 | 1.6 | 1.5 |
| Colleague time | 0.9 | 1.0 | 1.5 |
| Gifts in kind | 0.8 | 0.8 | 0.9 |
| Management costs | 0.3 | 0.2 | - ¹ |
| Leverage (donations by members, customers and suppliers) | 4.8 | 2.2 | 6.9 |
| Total | 8.3 | 5.8 | 10.8 |

Exclusions: We give 1% of our members' spend on Co-op brand products and services to local causes, as chosen by our members. This amounted to £2.8m at the end of 2016, to be distributed in April 2017 via the [Local Community Fund](#).

We accrued approximately £7m from the proceeds of the carrier bag levy and the profits we make on our Co-op reusable bag range in 2016, to be distributed to local causes in 2017 via the Local Community Fund.

These amounts are not included in the total UK community investment figures as funds were not distributed in 2016. They will be included in our 2017 community investment figures.

International community investment

In 2016 we invested £1.0m in international communities (2015: £1.1m). This included water projects in Africa from the sale of our Fairbourne Springs water bottles, for our partnership with the [One Foundation](#); money raised for the Disasters Emergency Committee appeal for Yemen in 2016/17; and projects funded by carbon offsets from our insurance and funeral businesses.

Colleagues involved in community activity

We encourage our colleagues to play an active role in the community, whether that's through fundraising, our formal volunteer programme, setting up, running or participating in community projects or taking part in civic duties. Colleagues can volunteer in the community for two days each year during work time.

Colleagues involved in community activity during work time

| | 2014 | 2015 | 2016 |
|---------------------------------|-------------------|-------------------|---------------------|
| Number of colleagues | 7,746 | 8,989 | 14,601 |
| Number of days (hours) | 8,090 (60,674) | 9,629 (72,219) | 14,180 (106,355) |
| Value of staff time (£m) | 0.9 | 1.0 | 1.5 |

¹ All management costs in 2016 have been attributed to projects through cash, colleague time or gifts in kind.

| | | |
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The increase in colleagues involved in activity in 2016, compared with 2015, was due to colleagues fundraising for our Charity Partnership with the British Red Cross, and greater engagement in community activity following the [Back to Being Co-op](#) sessions held throughout 2016.

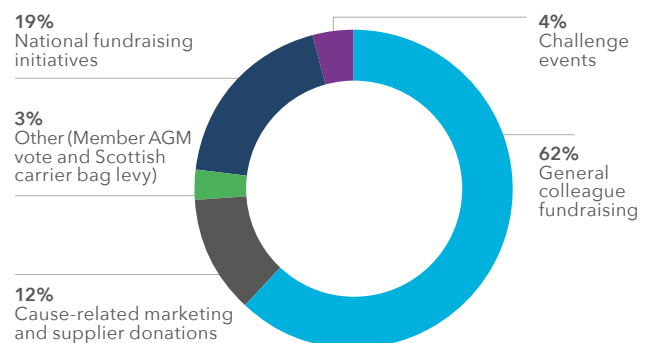
Our colleagues also engaged with their local communities throughout summer 2016 to identify thousands of local causes that address the needs and interests of our members locally. This helped us to identify over 4,000 causes that are making a real difference to local life, and these will benefit from our new [Local Community Fund](#).

In 2016 we evaluated our community engagement trials and pilots (including our work with Community Pioneers). We found that 'Member Pioneers' were a real asset in helping us to connect with other members, colleagues and local communities. This member-led approach is fundamental to engaging with local communities. And in 2017 we'll build on this, by recruiting more Member Pioneers and improving the training, support and tools we provide, to enable them to make great things happen locally. Alongside this we'll do more to empower all our colleagues with the time and training they need to play their part in community activity in their local area.

Fundraising for the British Red Cross

Fundraising for the British Red Cross involved thousands of activities across our Membership and all of our businesses, ranging from car washes and raffles to bake sales and bike rides. Hundreds of members and colleagues took part in challenge events and every one of our food stores engaged with the Charity Partnership to raise money.

£5m raised since the start of our Charity Partnership, by the end of 2016



Carrier bag levy

We're putting the proceeds of the carrier bag levy back into the communities where those funds are raised. In addition, we're committed to giving the profits we make on our Co-op reusable bag range. We accrued approximately £7m in 2016, to be distributed to local causes in 2017 via the Local Community Fund.

In Scotland, where the levy has been in operation since 2014, we distributed over £750,000 in 2016 to local community projects including hospices, schools, parks and community health groups. Members and colleagues voted for 570 local good causes to receive a share of £595,000 and three national partners received £172,000.

In Northern Ireland all money raised from the levy goes to the Northern Ireland Exchequer, to distribute to good causes of its choice. In Wales, the levy has been in place since 2011 and our proceeds (£318,000 in 2016) have been supporting Welsh Wildlife Heroes in partnership with Wildlife Trusts Wales.

Read more about how we're supporting local communities with proceeds from the levy and carrier bag range [here](#).

Co-op Insurance community partnership

Our Co-op Insurance business has partnered with Neighbourhood Watch to help more communities work together, share information and, in doing so, protect themselves from crime. Together we're aiming to set up 30,000 new schemes over the next four years, with 2,500 created by the end of 2016. We've also supported the delivery of 500,000 new Neighbourhood Watch stickers and helped to launch the neighbourliness survey. Read more in our [Healthy living section](#) about our campaign to tackle loneliness with the British Red Cross.

Co-op Funeralcare community activity

Our Funeralcare business supported hundreds of initiatives in 2016, both local and national, including: Christmas memorial tree and Remembrance services, Macmillan Coffee Mornings, and our 'Be Safe Be Seen' initiative with schools (supported by Brake, a road safety charity). As part of this, we've donated 30,000 reflective badges to children across the UK, helping children to travel safely when the clocks go back. We also have bereavement books for children and these are available across our 1,000 funeral homes to support children. The aim of the book is to help children recover from bereavement. We also build and develop relationships with hundreds of local community groups, from supporting local bowls clubs across the country to local bereavement support groups. [Read more](#) about Funeralcare activity in the community and see our [Healthy living](#) section for how this links with our campaign to tackle loneliness with the British Red Cross.

The Co-operative Foundation

The Co-operative Foundation is an independent charity, helping disadvantaged communities to overcome barriers to success. In 2016, the Foundation developed a new strategy, launched pilot projects focused on youth loneliness, and continued to provide volunteering opportunities for Co-op colleagues. New programmes will focus on three priorities:

- championing young people's abilities to contribute positively to their communities and helping strengthen their sense of belonging;
- investing in the capacity of disadvantaged communities to overcome social, economic or environmental challenges; and
- building a reputation as a trusted charity with a Co-op difference and uniting with others to make a sustainable impact in communities.

Support for the Co-operative Movement

In 2016 we funded the Co-operative Movement with £1.77m (2015: £1.80m). We provide details of the beneficiaries of our support opposite.

Co-op academies

We sponsor eight academy schools in Manchester, Leeds and Stoke-on-Trent through the [Co-operative Academies Trust](#). In 2016 the Stoke-on-Trent secondary academy achieved its best ever results, against a backdrop of national decline. The academy admitted the highest number of students in its history and won the [Department for Education Character Award](#).

Financial support for the Co-operative Movement (£m)

| 2014 | 2015 | 2016 |
|------|------|------|
| 1.80 | 1.80 | 1.77 |

Breakdown of financial support for the Co-operative Movement (£)

| Organisation | |
|-------------------------------------|--------------|
| Co-operatives UK | 729,000 |
| Co-operative Party | 626,000 |
| Co-operative News | 119,000 |
| Co-operative Academies Trust | 110,000 |
| Co-operative College | 100,000 |
| International Co-operative Alliance | 59,000 |
| Co-operative Heritage Trust | 28,000 |
| Total | 1.77m |

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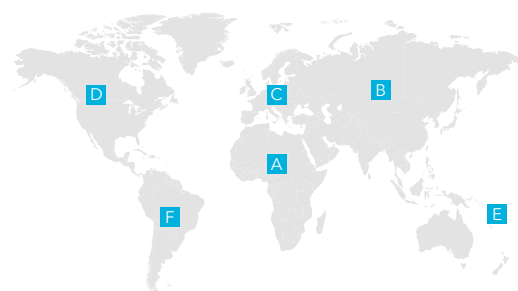
Monitoring labour standards in Co-op Food (for Co-op brand suppliers)

We're founder-members of the [Ethical Trading Initiative \(ETI\)](#), and we adopt their Base Code, which is founded on the conventions of the International Labour Organization and is an internationally recognised code of labour practice. We report annually to the ETI, and for our last submission in 2016 we were recognised as a 'Leader' in all six [Principles of Implementation](#) with an overall score of 90%. We require all Co-op brand suppliers¹ in our food business to join the [Supplier Ethical Data Exchange \(Sedex\)](#)². We identify suppliers for audit using a risk-based approach determined by supplier responses to Sedex self-assessment questionnaires, worker profiles, country of origin and sector.

100% of all Tier 1³ sites had completed a self-assessment questionnaire at the end of 2016 (2015: 99%), and 100% of high-risk Tier 1 sites had been audited at the end of 2016 (2015: 100%).

Number of sites and workers on Sedex and location of audits in 2015/16

| | Sites | Workers | Audits | Issues |
|------------------------|--------------|----------------|------------|--------------|
| A Africa | 232 | 84,681 | 91 | 441 |
| B Asia | 80 | 77,624 | 65 | 226 |
| C Europe | 1,206 | 294,486 | 457 | 1,233 |
| D North America | 57 | 17,724 | 14 | 68 |
| E Oceania | 23 | 19,962 | 5 | 1 |
| F South America | 175 | 69,008 | 35 | 254 |
| Total | 1,773 | 563,485 | 667 | 2,223 |



Status of improvement actions identified in valid audits in 2015/16, by Sound Sourcing Code provision

| Provision | Total improvement actions raised | | Improvement actions completed and verified | | Improvement actions completed by supplier; verification due in 2017 | | Improvement actions due for completion in 2017 | | Overdue improvement actions | | | |
|---|----------------------------------|-------|--|-------|---|-------|--|-------|-----------------------------|-------|----------------|-------|
| | Critical/major | Minor | Critical/major | Minor | Critical/major | Minor | Critical/major | Minor | Tier 1 | | Tier 2 | |
| | | | | | | | | | Critical/major | Minor | Critical/major | Minor |
| Exploitation of labour | 11 | 5 | 4 | | 4 | 4 | 2 | 1 | 1 | | 0 | |
| Freedom of association | 23 | 12 | 14 | 4 | 5 | 4 | 4 | 3 | 0 | | 0 | 1 |
| A safe and hygienic working environment | 777 | 439 | 505 | 272 | 121 | 69 | 118 | 74 | 10 | 6 | 23 | 18 |
| Child labour | 12 | 6 | 6 | 2 | 5 | 2 | 1 | 1 | 0 | | 0 | 1 |
| Living wages to be paid | 171 | 55 | 49 | 13 | 45 | 13 | 51 | 23 | 12 | 2 | 14 | 4 |
| Working hours are not excessive | 240 | 43 | 63 | 18 | 86 | 13 | 70 | 10 | 9 | 2 | 12 | |
| No discrimination | 24 | 3 | 7 | 1 | 7 | 1 | 9 | 1 | 0 | | 1 | |
| Regular employment | 177 | 119 | 96 | 55 | 30 | 23 | 33 | 27 | 7 | 4 | 11 | 10 |
| No harsh or inhumane treatment | 24 | 11 | 12 | 7 | 8 | | 2 | 2 | 0 | | 2 | 2 |
| Other issue types | 43 | 28 | 10 | 9 | 15 | 6 | 15 | 12 | 1 | | 2 | 1 |
| Sub-total | 1,502 | 721 | 766 | 381 | 326 | 135 | 305 | 154 | 54 | | 102 | |
| Total | 2,223 | | 1,147 | | 461 | | 459 | | 156 | | | |

1 Suppliers 'in scope' include all Tier 1 and Tier 2 sites in high-risk product categories.

2 Sedex is a web-based database where suppliers upload labour standards information, including self-assessments and site audit reports.

3 A Tier 1 site is a production site where goods are finished, ready for supply to, or sale by, the end company. A Tier 2 site is a production site that supplies goods or materials to a Tier 1 site for incorporation into the finished product.

Supplier capacity building in Co-op Food

Our food business has a programme of supplier workshops in key sourcing countries designed to:

- raise awareness of our values, expectations and strategy;
- provide guidance on local labour law and our [Sound Sourcing Code of Conduct](#) requirements; and
- share best practice in addressing common labour standard issues.

During 2016, 23 supplier events were carried out, in the UK, Italy, Spain and Egypt. These events reached 908 delegates, representing 531 sites and amounting to 6,063 hours of supplier training/engagement (2015: 17 events, 696 delegates, 530 sites and 4,815 hours).

Goods and services we use in our own business and operations

In 2016 we reviewed our approach to identifying, managing and addressing ethical and human rights issues associated with the procurement of goods and services we use in our own business and operations (ie not for resale).

As a result we agreed a new approach and strategy which builds on the experience and approach we take with our Co-op brand suppliers in Co-op Food, with the aim of increasing supply chain transparency and due diligence. A key element of this plan is to extend the use of Sedex to include suppliers who provide these goods and services not for resale, and to introduce new supplier monitoring and auditing processes. The strategy will be rolled out in 2017 for high-risk suppliers by our new Procurement Services Governance, Ethical Sourcing and Policy team.

During 2016 we continued to implement our Sustainable Procurement and Supplier Policy (SPSP) which applies only to the goods and services we use in our own business and operations. This is a risk-based approach to screening suppliers based on an assessment of factors such as contract value, sector and country. The SPSP will be reviewed in 2017 in line with our new approach set out above.

Our support for Fairtrade

Focusing on core categories: Since 2015 our strategy has been to focus on core categories (wine, bananas, chocolate, coffee, tea, sugar and flowers) in line with the [Fairtrade Foundation's](#) own focus on where the impact on producers is greatest.

Our UK market share in Fairtrade: We're the largest global convenience seller of Fairtrade products⁴. Our Fairtrade market share among UK convenience stores was 78%⁵ in 2016 (2015: 77% [®]). The typical Co-op convenience store offers around 100 Fairtrade products. This is notably higher than our competitors' convenience stores (based on store spot-checks, we believe our Fairtrade range in a typical convenience store is approximately double that of our main competitors).

Beyond Fairtrade: We continue to go beyond simply providing producers with the [Fairtrade Premium](#). Our investment in our wine producing communities has enabled the approval of plans for the development of a clinic in a village in Argentina and worker housing in South Africa in 2017. Using funds raised from our [Growing Stories](#) social media campaign, we have started to scope out a women's health and nutrition project with a coffee co-op in Colombia, and are considering several applications for the launch of a second project in 2017.

⁴ Study by independent expert Ian Bretman on behalf of our Co-op, January 2017. Ian has been involved with the Fair Trade movement for over 30 years, starting with a role as Head of Marketing for Oxfam GB's trading division. He spent seven years as Deputy CEO of the Fairtrade Foundation and served four years as Executive Vice-Chair of Fairtrade International. He currently works as Strategic Advisor to the three Fairtrade Producer Networks and rejoined the Board of Fairtrade International.

⁵ Kantar, data based on 52 weeks ending 1 January 2017.

[®] Restated based on data from Kantar. Data based on 52 weeks ending 1 January 2016.

| | | |
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Fairtrade Premiums: Over and above the Fairtrade price, Fairtrade premiums are an additional sum of money which provides a communal fund for workers and farmers to improve their economic, social and environmental conditions. In Belize, for example, Fairtrade premiums are supporting our sugar producers and their communities. The premium enables farmers to diversify their produce, helps vulnerable children with bursaries, develops community projects, and provides technical support to farmers to help increase crop yields and reduce environmental impact.

Promoting Fairtrade: Our innovative [Growing Stories](#) social media and website campaign concluded in 2016. Fourteen Fairtrade producers reached 10.2 million people over the year with stories about the impact Fairtrade is having (an average of one post per producer every week). The campaign was a major feature during Fairtrade Fortnight and our AGM, as well as at a special parliamentary event. Fairtrade featured in our national television advertisement and in customer communications in our stores throughout the year.

Human Rights and Trade Policy

We continue to implement our Human Rights and Trade Policy, which identifies the exceptional conditions under which we will suspend trade with a nation state or designated region.

One such condition is where there is broad international consensus that the status of a settlement is illegal. There are only two examples of such settlements: the Israeli settlements in the Occupied Territories and the Moroccan settlements in Western Sahara. As a result, we do not source any produce (fresh fruit, vegetables and flowers, whether whole or prepared) or Co-op brand products from the Israeli or Moroccan settlements. However, we remain committed to sourcing produce from Israel and Morocco, and continue to use suppliers that do not source from the Occupied Territories and Moroccan settlements.

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Traffic light labelling

Our traffic light labelling provides nutrition information for Co-op products at a glance. The colour coding allows customers to check if the product is low, medium or high in fat, saturated fat, sugar or salt.

Proportion of Co-op brand products carrying traffic light labelling that are healthy (ie carry no red traffic lights)

| 2013 | 2014 | 2015 | 2016 |
|------|------|------|------|
| 40% | 41% | 42% | 44% |

Healthier products

Healthier products are defined as fresh produce, bread, pure fruit juice, canned fruit and vegetables in water or fruit juice, lean protein, plain pasta, rice and noodles, products meeting the Food Standards Agency nutrient-profiling criteria used by Ofcom, products without a red traffic light, any products which comply with the Change4Life guidelines, drinks classed as diet or no added sugar or any 'reduced' or 'light' products which comply with the legal definition of 'reduced' in the nutrition claims regulations.

Proportion of price-based promotions for healthier products

| 2013 | 2014 | 2015 | 2016 |
|------|------|------|------|
| 32% | 32% | 32% | 38% |

Alcohol awareness

We're committed to selling alcohol responsibly. We work in partnership with the [Drinkaware Trust](#), providing over £230,000 of funding to them in 2016, and we also help to raise awareness of its campaigns. Furthermore, in 2016 we launched five new alternative non-alcoholic drinks.

Change4Life

We've been partners with [Change4Life](#) since it launched in 2009 and we regularly support their January health campaigns through our digital media channels. In 2016, we supported their [Sugar Smart app](#).

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Number of UK farms and suppliers

More than 3,000 farmers and growers feed into our supply chain, supplying us with meat, dairy, poultry, fresh produce and prepared products for our Co-op brand ranges.

Respecting animal welfare

Monitoring animal welfare

All farms – whether part of our Farming Groups or not – that supply our meat, dairy or poultry products may be subject to announced and unannounced visits or audits by us or an appointed independent audit body, to check compliance with national standards and our Co-op welfare standards.

The total number of meat, dairy and poultry inspection visits in 2016 was: 338 (2015: 228).

And the total number of visits to monitor animal welfare at sites such as farms, hatcheries and abattoirs was: 127 (2015: 83).

We also conducted 198 independent audits across our Farming Groups (see 'Developing our Farming Groups' below).

Our sourcing and assurance standards

All our Co-op brand fresh, frozen and prepared meat and poultry products are produced, as a minimum, to Red Tractor Farm Assurance Scheme standards (a UK accredited body), or equivalent when sourced outside the UK. We've also developed additional requirements that apply to our Co-op brand products. Read more about our animal welfare policies.

2016 assurance standard

| | Standard range | Irresistible range |
|----------------|---|----------------------|
| Beef | Red Tractor | Red Tractor |
| Lamb | Red Tractor | Red Tractor |
| Dairy | Red Tractor | Red Tractor |
| Pork | Red Tractor | <u>RSPCA Assured</u> |
| Chicken | Red Tractor | RSPCA Assured |
| Turkey | Red Tractor - Quality British Turkey | - |
| Eggs | RSPCA Assured/Free Range | - |
| Salmon | RSPCA Assured | RSPCA Assured |

Higher welfare sales for fresh, frozen and prepared products

Our aim is to create high-quality products that have been produced to good animal welfare standards and that our customers can afford, regardless of their budget. We also continue to monitor and report higher welfare sales data.

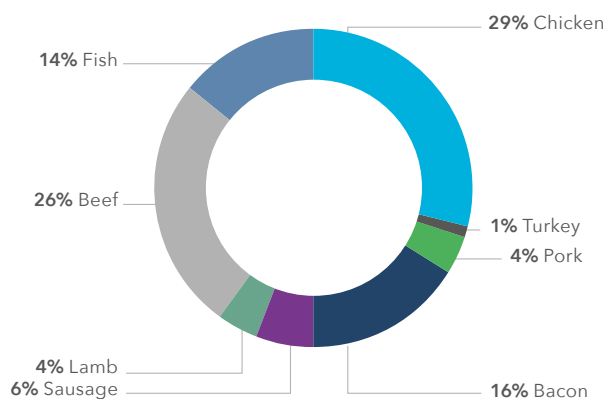
Co-op brand eggs and milk sales

Since 2008, all shell eggs sold (Co-op brand and branded) have been free range as a minimum, and we only use free-range egg as ingredients in Co-op brand products. In 2016, 96% (2015: 98%) of Co-op brand shell-egg sales were RSPCA assured. The remainder of shell-eggs sold were certified organic. Our Dairy Farming Group maintains welfare standards in compliance with our grazing policy.

Co-op brand fresh meat, poultry and fish sales (by value)

The charts below show the proportion of Co-op brand fresh protein sales by protein type, and by welfare standard.

Proportion of fresh protein sales, by protein type



Higher welfare sales

| 2015 | 2016 |
|--------------------|------|
| £104m ^R | £99m |

^R Data has been restated due to a change in reporting approach in 2016, whereby sales of traditional breeds have been excluded as they have no higher welfare standards associated with them. 2015 and 2016 data is comparable.

Proportion of sales by welfare standard

| | National Dairy Farm Assured Scheme | RSPCA Assured/Free range | Certified organic |
|------|------------------------------------|--------------------------|-------------------|
| Milk | 93% | - | 7% |
| Eggs | - | 96% | 4% |

Proportion of fresh protein sales, by welfare standard (%)

| | Red Tractor Farm Assurance | RSPCA Assured |
|---------|---------------------------------------|------------------|
| Chicken | 99 | 1 (free range) |
| Turkey | 100 (Quality British Turkey standard) | 0 |
| Beef | 100 | 0 |
| Bacon | 82 | 18 |
| Pork | 100 | 0 |
| Sausage | 34 | 66 |
| Lamb | 100 | 0 |
| Salmon | 0 | 100 ¹ |

Wild vs farmed fish: Farmed fish accounted for 39% (2015: 34%) of the fish used in Co-op brand food products in 2016; the remainder was wild caught.

¹ RSPCA Assured applies only to salmon in the fish species.

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Animal testing

No Co-op brand toiletry² or household³ products or their ingredients have been tested on animals since 1985 and 1997 respectively. All of these Co-op brand products continue to carry Cruelty Free International's (CFI) [Leaping Bunny certification](#) and in 2016 we updated the packaging design of our Co-op brand household products to emphasise our stance on animal testing. CFI conducts audits every three years to monitor compliance and audited our products most recently in January 2015.

Household and toiletry product sales (£m)

| | 2013 | 2014 | 2015 | 2016 |
|-----------|------|------|------|-------------|
| Household | 21.1 | 17.1 | 16.0 | 15.6 |
| Toiletry | 5.6 | 5.4 | 4.2 | 4.4 |

Developing our Farming Groups

We have just over 400 British farmers and growers in our eight Farming Groups. In developing our groups we aim to encourage best practice and create profitable returns among our farmers, and provide our members and customers with high-quality fresh British meat, poultry and milk. In 2016 we continued to develop our Farming Groups with: research and development programmes; an integrated calf scheme to transfer male calves from our Dairy Group to our Beef Group; and support for young farmers.

Farming Groups - KPI data on animal welfare

We collate key performance indicator (KPI) data from our Farming Group farms to monitor the impacts of our animal welfare standards. Data on input (eg stocking densities), outcome (eg lameness) and quality (eg level of bruising) is recorded for each species from our Farming Groups on a monthly basis.

We saw a slight reduction in overall compliance from 93% in 2015 to 90% in 2016. This is partly due to the addition of the Turkey Farming Group in 2016. This is the first year that data has been collected from this group and their overall compliance at this stage is slightly below our other, more established groups. We have also seen a small reduction in compliance in the chicken group, which is due to us challenging the use of antibiotics in our supply chain. Our actions should lead to significant gains in the long term in this area, but it has meant a small reduction in the group's compliance results in 2016. Additionally, during 2016 we changed the way we collect data for our Dairy Farming Group and data shown in the table below is therefore based on three-quarters of the year only. The input measures for dairy include herds' access to grass. Without a full 12-month period the results are significantly lower than the other species, though we expect this to be in line next year when we base the data on a full 12-month period.

In addition, we worked with our Dairy Farming Group to launch an antibiotic monitoring and benchmarking programme. An 'Animal Daily Dose' is calculated from farm medicine records and then used by farmers to benchmark their antibiotic use, and to implement plans for responsible use.

² Toiletries are classified as cosmetics under the EU Cosmetics Directive 76/768 in which a cosmetic product is any substance or preparation intended for placing in contact with the various external parts of the body with a view exclusively or principally to cleaning them, perfuming them or protecting them in order to keep them in good condition, change their appearance or correct body odours. In 2013, an EU-wide ban was introduced on the sale and import of cosmetic products and ingredients tested on animals after March of that year.

³ Humane Household Product standards define household products as: disinfectant, bleach, dishwasher products, floor and furniture polish, cleanser and cleaner, toilet products, washing-up liquid, air freshener, washing powder, laundry tablets and fabric conditioner.

Animal welfare KPI data from our Farming Groups: levels of compliance (%)

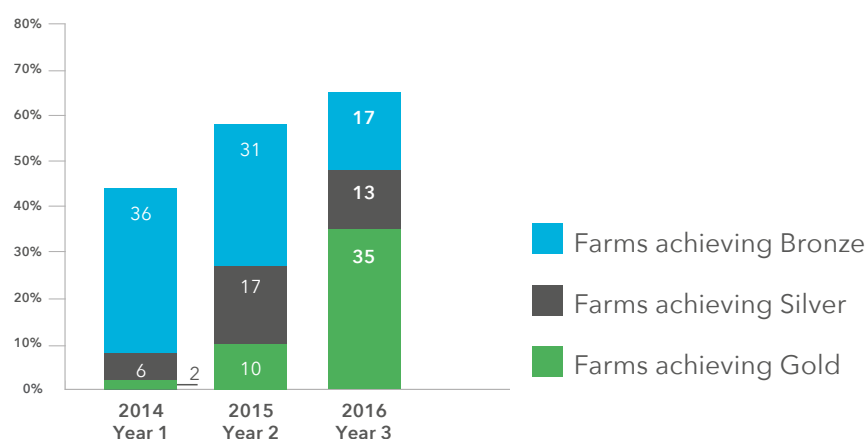
| Species | Input (compliance with Co-op sourcing standard) | Outcome (animal health and wellbeing) | Quality (of the product) | Overall |
|------------------|---|---------------------------------------|--------------------------|---------|
| Turkey | 97 | 90 | 85 | 91 |
| Chicken | 92 | 52 | 77 | 74 |
| Pork | 100 | 88 | 83 | 90 |
| Red Tractor Pork | 97 | 94 | 100 | 97 |
| Dairy | 46 | 95 | 100 | 83 |
| Beef | 100 | 100 | 95 | 98 |
| Lamb | 100 | 100 | 88 | 96 |
| Overall | 90 | 89 | 89 | 90 |

Farming Group performance against our pillar model

We also monitor performance in our Farming Groups through independent audits. Performance is based on five pillars: Health, welfare and quality; Co-op brand; Sustainability; Environmental; and Ethical and training. Farms are audited against the pillars (198 audits were conducted in 2016) and rated according to their performance as Bronze, Silver or Gold. Regardless of their rating, farms are required to meet our Health, welfare and quality pillar.

For a farm to be rated Bronze, the first two pillars must be met. The other three pillars (Sustainability, Environmental, and Ethical and training) determine whether a farm is classed as Silver or Gold. We expect farms to progress through the pillars to Silver or Gold, for which they receive further incentives.

Of the 198 audits in 2016, 35% of farms achieved Gold, 13% achieved Silver and 17% achieved Bronze. Changes since 2015 are due to an increase in the number of producers progressing into the Gold rating. 35% of farms did not receive a Bronze rating primarily due to not meeting set KPIs. We are working with these producers to make improvements which, if not made, would lead to a producer having to leave our Farming Groups.



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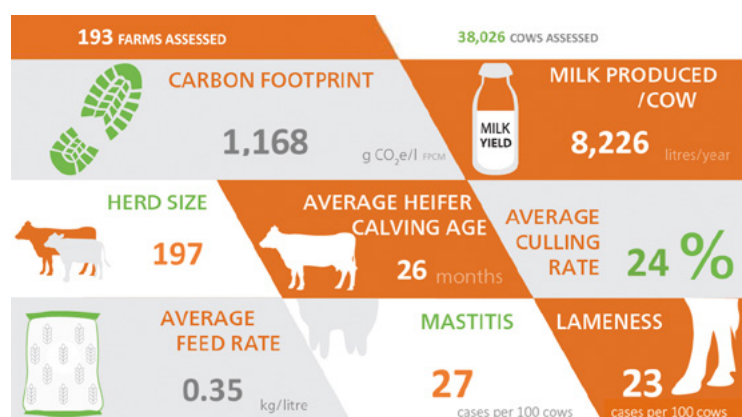
The following table shows the percentage of producers that had completed each pillar during the audits.

Farming Groups pillar performance

| Producers completing each pillar | | | | |
|----------------------------------|----------------|----------------|---------------|-------------------------|
| Health, welfare and quality | Co-op brand | Sustainability | Environmental | Ethical and training |
| 86% | 66% | 67% | 68% | 67% |

Enviro-map: A study into our Farming Groups

Over the next three years we will use our Co-op Enviro-Map to carry out carbon footprint assessments and biodiversity surveys across our Farming Groups. Data will then be processed to generate individual farm reports that will allow farmers to benchmark performance of their business and make decisions to improve efficiency and reduce environmental impact. The 193 members of our Co-op Dairy Farming Group were the first to complete our online Enviro-Map assessment (see data opposite), with the remaining Farming Groups following in 2017.



Research and development

In 2016 we continued working with the Food Animal Initiative to review our livestock standards and welfare reporting, and to partner our research and development programme. We have invested in a research and development programme across all species with concept farms in place. Our projects focus on animal welfare, environmental impact, farm production efficiency and sustainability. We're also members of the [Centre of Innovation Excellence in Livestock](#) for research and development).

Find out more [here](#).

Local sourcing and wider engagement

We communicate on a whole range of other food and farming activity throughout the year, from our annual Open Farm Sunday (find out more [here](#)), through to our local sourcing activity. In 2016 we rolled out a new local sourcing initiative to support small or start-up food producers with the launch of beer, ambient and chilled ranges in Yorkshire, Lancashire and the Isle of Wight. We have also launched local beer in a number of other regions including Wales, London and East Anglia. In 2017 we plan to develop local ranges across the rest of the country including a market-leading local and craft beer offer. In addition we will be sponsoring the Small Producer of the Year award in conjunction with the Q Awards to find, support and highlight small suppliers producing amazing quality products.

We also provide information on different aspects of our performance and approach on the [Co-op Food website](#) including, for example, how we respond to issues such as [campylobacter](#). And we have a following on Twitter ([@CoopAgriMatters](#)) where people can ask questions and let us know what they think.

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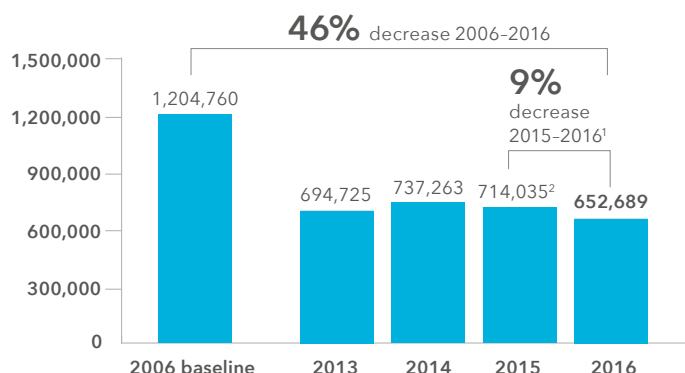
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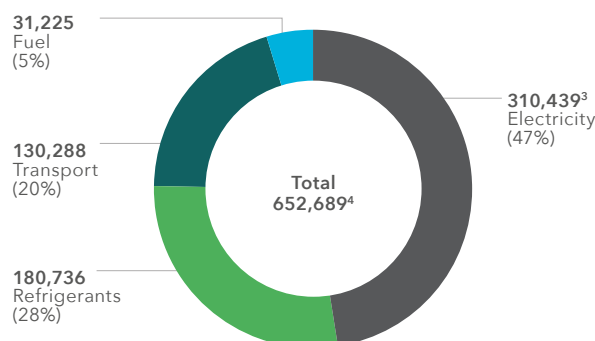
We report on our performance in three areas – climate change, waste and pollution, and resource use. We recognise it's not enough simply to comply with legislation; we must go beyond this to ensure we minimise our impact on the environment. Our impacts extend across our operations, through to our products and services and our supply chains.

Climate change

Direct greenhouse gas (GHG) emissions (tCO₂e)



Direct GHG emissions by source (tCO₂e)

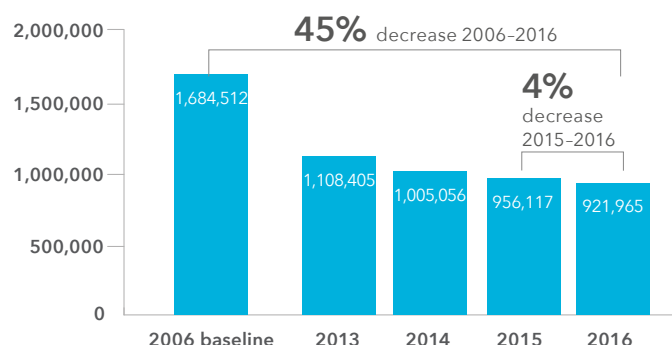


GHG emissions/gross sales (tCO₂e/£m gross sales)

| 2013 | 2014 | 2015 | 2016 |
|------|------|-------------------|------|
| 66.1 | 72.2 | 71.4 ^R | 63.5 |

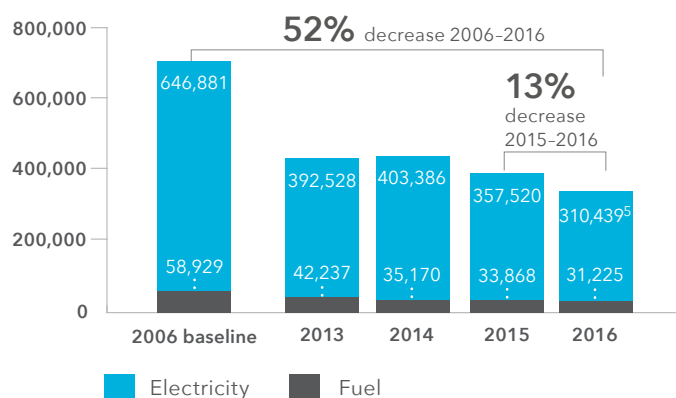
^R 2015 data restated to account for changed GHG emissions as per footnote 2, and updated gross sales figures.

Energy consumption (MWh)



^R Restated to include gas oil.

GHG emissions from energy consumption (tCO₂e)



1 Driven by a decrease in energy used (down 4% since 2015) but also due to UK grid electricity having a lower carbon intensity in 2016.

2 2015 data restated to remove mileage from our divested Pharmacy business which was incorrectly included, and to include better accounting of emissions from fugitive refrigeration gases.

3 Reported GHG emissions from our electricity use are calculated based on the annual UK grid average. This allows us to compare against our 2006 baseline; 99% of our electricity is from REGO-backed renewables. If we were to count this as zero carbon, our total direct carbon footprint would instead be 345,111 tonnes; a 71% reduction vs. baseline.

4 This is an exact figure. Subsets of this figure in the pie chart have been rounded.

5 As per footnote 3.

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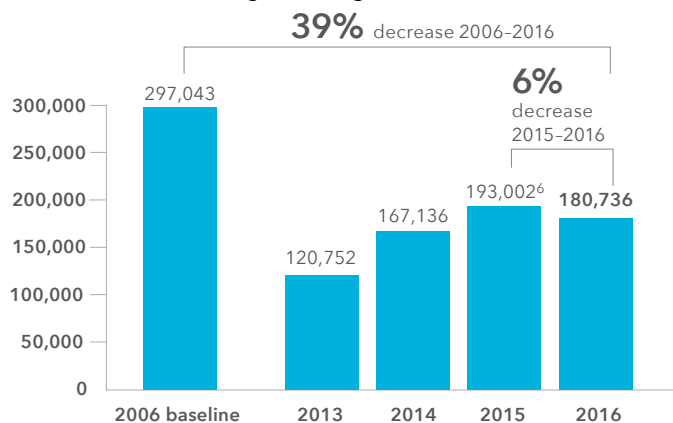
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Percentage of electricity from renewable sources

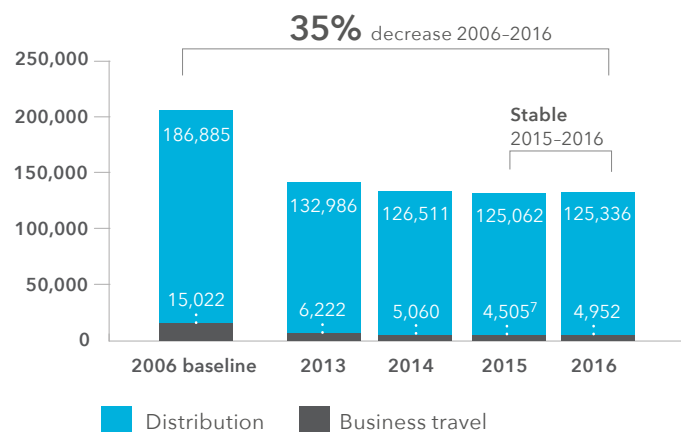
99% of our electricity is from renewable sources, backed by 'Renewable Energy Guarantees of Origin' (REGOs) from UK wind farms, small-scale hydro-power, or our own renewable electricity generation (our own generation currently accounts for 14.5% of our supply). The remaining 1% covers new sites that aren't yet on this supply. We also purchase renewable energy on behalf of other organisations (including other co-operatives).

Refrigerants and transport-related emissions

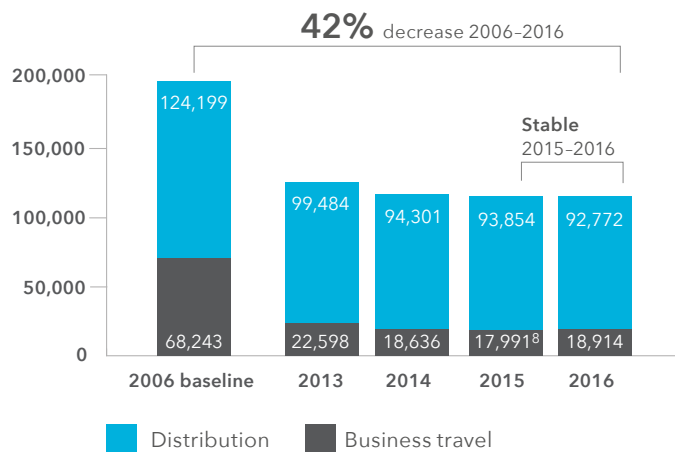
GHG emissions from fugitive refrigerants (tCO₂e)



GHG emissions from transport (tCO₂e)



Transport mileage ('000 miles)



Indirect GHG emissions

Indirect emissions by source (from operations) (tCO₂e)

| | |
|--|----------------|
| 'Well to Tank' emissions for electricity, gas, fuel and travel | 113,629 |
| Indirect emissions from waste disposal through reuse, recovery, recycling and landfill | 2,870 |
| Indirect emissions in water supply and treatment | 1,498 |
| Total indirect emissions⁹ | 117,997 |

Emissions savings through positive action (tCO₂e)

| | |
|--|---------|
| Emissions avoided through carbon offset of customer emissions (via Ecoinsurance) and Funeralcare operational emissions | 119,768 |
| Emissions avoided through recycling, reuse and recovery of waste | 37,291 |

⁶ Restated to include better accounting of refrigerant gas emissions due to improved data capture systems put in place over 2015-2016.

⁷ Restated to remove business mileage emissions from Pharmacy business which should have been removed from our figures in 2015.

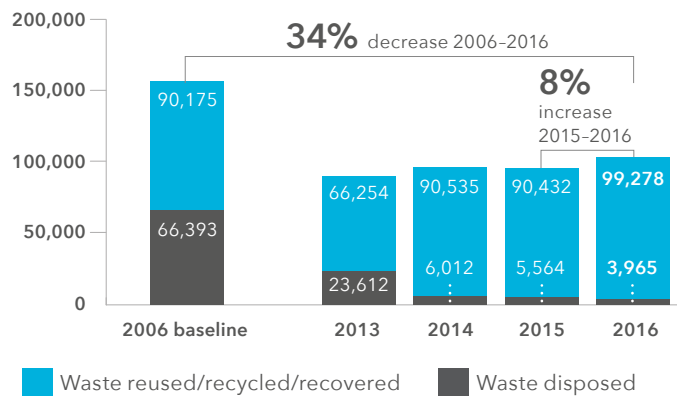
⁸ Restated to remove mileage from the Pharmacy business which should have been removed from our figures in 2015.

⁹ Note that we have historically included an estimate of the indirect emissions associated with our production of product packaging, based on WRAP conversion factors. Data was unavailable in time for publication of this 2016 report, but totalled 118,877 tonnes in 2015.

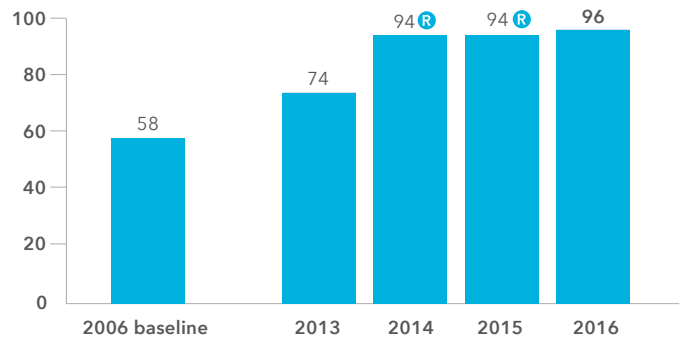
Waste

The amount of waste we produce has decreased by 34% since 2006 but increased by 8% compared to last year. We believe this might be due partly to increased sales and a focus on availability of fresh produce in our food business. For 2017 a dedicated waste working group has been set up to manage this issue, and we're also working to ensure that safe, edible surpluses go to feed people.

Total waste from our operations (tonnes) ^R



Waste reused/recycled (%)



^R 2014 and 2015 waste data have been restated to account for a better estimate of waste from our Funeralcare properties which have individual waste arrangements in their local area; the waste from these sites was previously underestimated.

Combatting waste

We're helping customers to reduce food waste by: labelling (eg, storage tips on packs, portion size guides on dry rice and pasta packs, and 'top tips' on freezing); packaging (eg, we look at shelf-life boosting solutions, ie, vacuum packs and skin packs for meat); and communications (our food magazine includes an 'Odds and Ends' recipe idea page in every issue, offering advice on using leftovers, and we share hints and tips endorsed by WRAP on our social media channels).

Packaging

Overall, packaging handled has increased by approximately 5% year-on-year, due partly to increased sales in our food business. And in 2016 the weight of Co-op-brand packaging handled increased by 3% to 84,572 tonnes (2015: 81,903 tonnes)

Food surplus redistributed (tonnes)

| | |
|---|------------|
| Food surplus redistributed through FareShare | 494 |
| Food surplus redistributed through The Real Junk Food Project | 18 |
| Total | 512 |

Packaging handled by material (tonnes)

| | 2006 baseline | 2013 | 2014 | 2015 | 2016 ¹⁰ |
|--------------|----------------|----------------|----------------|-----------------------------|--------------------|
| Glass | 128,027 | 88,076 | 89,212 | 90,164 | 93,990 |
| Plastic | 78,492 | 44,149 | 42,712 | 41,715 | 43,495 |
| Paper | 42,794 | 26,034 | 25,148 | 23,982 | 26,193 |
| Steel | 27,381 | 9,910 | 9,084 | 8,550 | 8,261 |
| Aluminium | 8,285 | 5,395 | 5,487 | 5,936 | 6,331 |
| Total | 284,979 | 173,564 | 171,643 | 170,347 ^R | 178,268 |

^R Restated to exclude other materials (mostly wood) as this only constituted a small proportion of packaging handled.

¹⁰ Data for each material has been rounded, but the total (178,268 tonnes) is an exact figure.

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Fish

Responsible fish sourcing: We aim to be one of the UK's most responsible retailers of fish. We're members of the [Sustainable Seafood Coalition](#) and we use their voluntary codes of conduct for the responsible sourcing and labelling of fish and seafood products. We also take part in the [Sustainable Fisheries Partnership's 'Ocean Disclosure Project'](#) - which means we're transparent about where we source our fish, and all our source fisheries are publicly available. For Co-op brand food products in 2016:

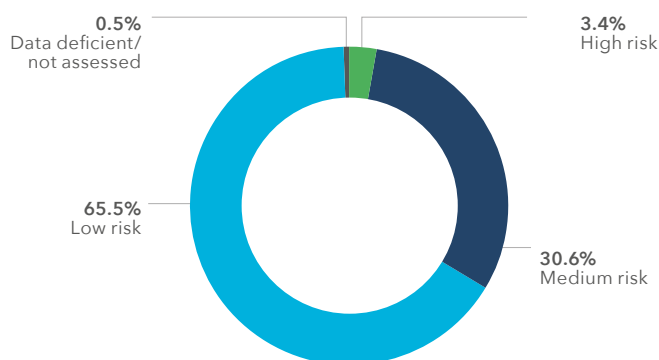
- 61% of fish was sourced from marine fisheries and 39% was farmed (2015: 66% and 34% respectively);
- the number of [Marine Stewardship Council \(MSC\)](#)-certified products increased to 40 (2015: 28); and
- 39% of wild-captured seafood is sourced from MSC fisheries (by volume) (2015: just over 25%).

Our responsible fish sourcing standard applies to wild-caught and farmed fish. The standard applies risk assessments for all fisheries that supply Co-op brand fish, shellfish and molluscs. This process requires us to examine individual products based on location and catch method, species' resilience to fishing, fishery by-catch estimates and scientific stock assessments, scoring sources as follows:

- low risk: very well managed fisheries/MSC-certified fisheries;
- medium risk: reasonably managed fisheries;
- high risk: poorly managed fisheries; and
- data deficient or not assessed.

In 2016, 96% of the fish used to supply our wild fish and seafood products was sourced from low-risk or medium-risk fisheries as detailed in the chart below (2015: 85%). This increase reflects the work we've done to implement appropriate management actions such as those detailed in the table below.

Proportion of fish used to supply wild fish and seafood products, by risk profile



The status of high-risk sources of fish in 2016

| Source | Status |
|--------------------------|---|
| Pink salmon | Pink salmon and mackerel are now low risk as the fishery is MSC certified |
| Atlantic mackerel | |
| Sardines | Sardines are now in a Fisheries Improvement Project (a five-year journey towards a fishery becoming MSC certified) and showing good progress |
| Norway lobster | The majority of Norway lobster we used was from medium-risk sources, leaving a very small amount from high-risk sources as at the end of 2016 |

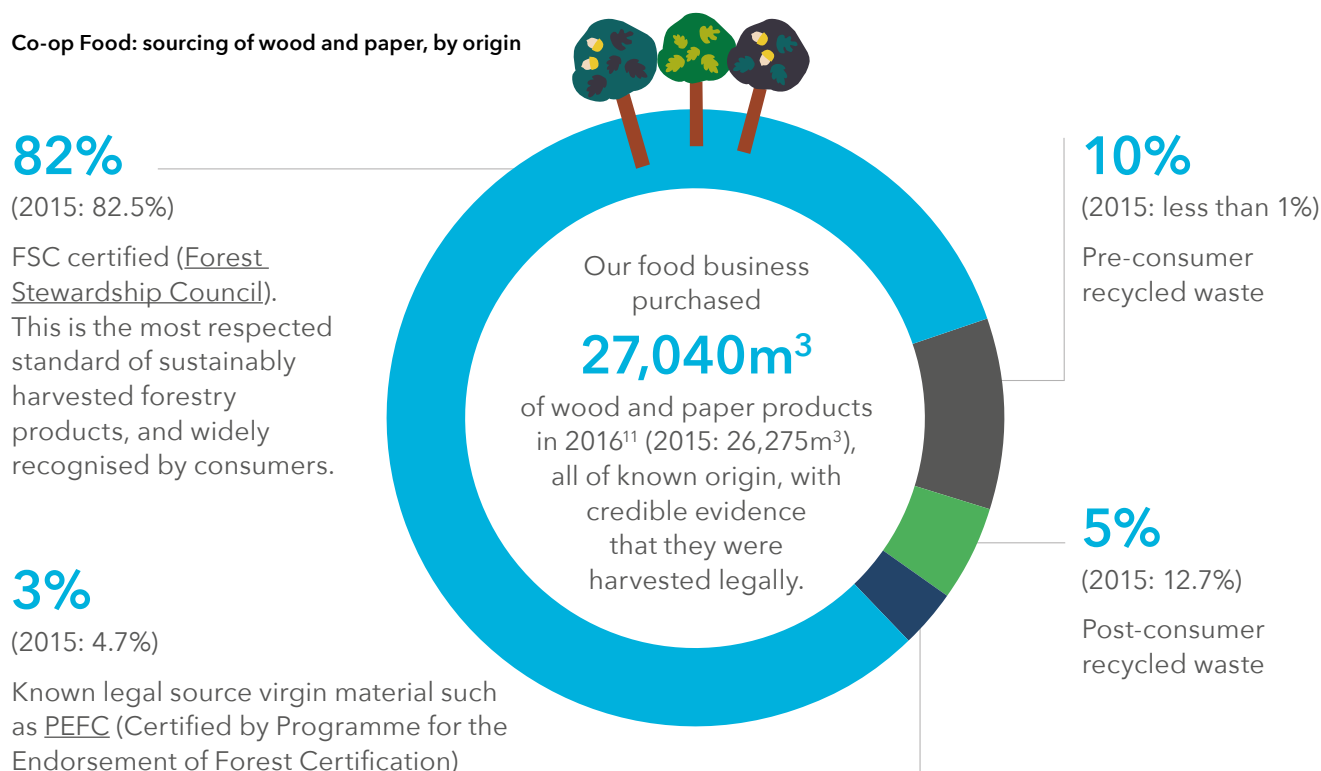
Our aquaculture sources (for farmed fish)

| | Certification |
|--|--|
| Atlantic salmon (Scotland) | All Scottish salmon is certified to the Global GAP (Global Good Agricultural Practice) or Aquaculture Stewardship Council (ASC) schemes, including salmon used as an ingredient in our food products. Additionally, all our fresh salmon and smoked salmon was certified to RSPCA Welfare standards in 2016. |
| Mussels (Scotland) | Source is Marine Stewardship Council (MSC) certified. |
| King prawns (Thailand, Vietnam, Indonesia, Nicaragua, Honduras) | All sources are ASC, Global Aquaculture Alliance's Best Aquaculture Practices (GAA BAP), or Global GAP certified. |
| Tiger prawns (Indonesia) | Organic. |
| Basa (Vietnam) | All sources are ASC, GAA BAP or Global GAP certified. |
| Seabass (Turkey) | Global GAP certified. |
| Seabream (Turkey) | Global GAP certified. |

Wood and paper

In our food business, we're [Graduates of the WWF UK Forest and Trade Network Benchmark](#) - the first retailer to achieve this. This means we've committed ourselves to tracing all our timber and paper products back to the forest source. And we're on track to receive the [WWF UK Timber Scorecard Benchmark 'Three Trees'](#) for our commitments to Forest Stewardship Council and recycled timber, timber products, and reporting.

Co-op Food: sourcing of wood and paper, by origin



Wood and paper purchased for Co-op Food that was FSC certified or recycled (%)

| 2006 baseline | 2013 | 2014 | 2015 | 2016 |
|---------------|------|------|------|------|
| 50 | 98 | 97 | 95 | 97 |

Co-op Funeralcare: coffins

In 2016, 96% (2015: 96%) of the coffins manufactured by Co-op Funeralcare were made from FSC-certified wood.

¹¹ Wood raw material equivalent.

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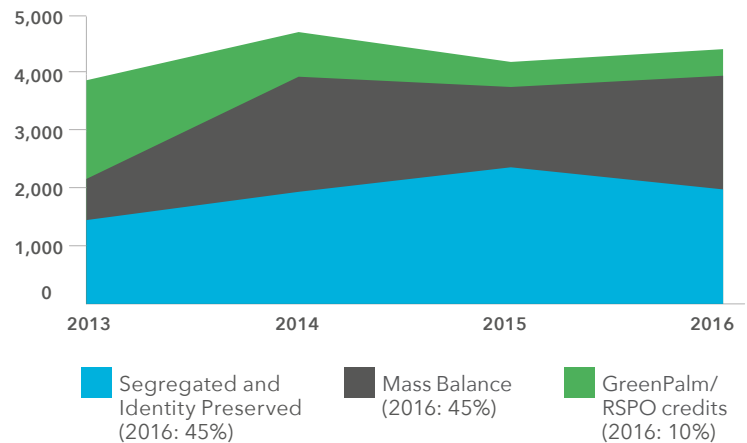
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Palm oil

We work with the [Roundtable on Sustainable Palm Oil](#) (RSPO) to improve the sustainability of our products. In 2016 we used 4,434 tonnes in 937 Co-op brand food and non-food products (2015: 4,210 tonnes in 915 Co-op brand food products). All the palm oil in these products was certified as sustainable under one of the [RSPO certification schemes](#).

The graph opposite shows how we are managing the change from Credits to Segregated or Mass Balance, to support our aim of making palm oil more segregated and sustainable. In 2016 GreenPalm certification began transitioning into RSPO certification, and we therefore used a combination of both. Before 2016 this graph did not include cleaning and cosmetic products, but we have now included these for 2016.

RSPO sourcing in Co-op brand food (and, for 2016 only, also non-food products) (tonnes)



Soy

Monitoring soy use in our Co-op brand products is challenging because it has so many uses across the food chain. We're members of the [Round Table on Responsible Soy](#) (RTRS) and the Retail Soy Group. We've started the process of mapping our soy use and tracking the tonnes used.

Our most significant use of soy by far is in animal feed for livestock for our meat products. The responsible soy market is relatively young and, to date, little responsibly sourced soy has been used in UK animal feed. In 2016 we purchased 5,000 tonnes of RTRS credits to cover just under 10% of our soy footprint. All of our credits were from smallholder farmers in Argentina. Additionally, 82% of farms in our Farming Groups used alternative protein sources to soy – something we actively encourage with our Alternative Soy Usage requirements (2015: 63%).

Soy used in our food products (tonnes)

| | 2015 | 2016 |
|--|-------------|--------|
| Direct soy (used in a product) | Not tracked | 267 |
| Indirect soy (used in product development, ie animal feed) | 54,356 | 58,909 |

Peat

Peat is an important natural resource, providing carbon storage and natural flood defences. We support the Government's target to completely phase peat out of the amateur gardener market by 2020. In 2016 peat represented 50% of our Co-op brand bagged growing media sold (2015: 50%). We'll continue to conduct growing trials to reduce this level of peat.

Water

Water scarcity is a global concern, with serious environmental, social and economic consequences. We use water within our own operations, and report on this, but we also recognise that our biggest impact is in our wider supply chain.

Estimated water consumption: direct water usage from our operations

| Year | Total water ('000 m ³) | Water per site (m ³) |
|-----------------|------------------------------------|----------------------------------|
| 2006 (baseline) | 1,560 | 420 |
| 2013 | 1,445 | 349 |
| 2014 | 1,508 | 361 |
| 2015 | 1,423 | 325 |
| 2016 | 1,433 | 341 |

Chemicals

Pesticides protect crops from pests, weeds and diseases, preserve stored produce and improve farm productivity. However, they can impact biodiversity and have been linked to health problems.

We're committed to the safe and responsible use of pesticides; since the 1980s we've adopted a precautionary approach towards their use. We monitor and manage how and where they are used, restricting and banning pesticides that have the most harmful effects on human, animal and environmental health.

In our food business, our policy and pesticide control system is implemented by independent specialists, who assess every proposed instance of pesticide use by our fresh fruit and vegetable suppliers. Risk assessment is based on extensive research and those pesticides deemed to be high risk are not allowed (based on their potential risk to consumers, operators and the environment – including pollinators such as bees).

We also deploy management plans for lower-risk pesticides – for example, to ensure that the application of a pesticide does not harm beneficial insects. These plans can involve precautions around how and when the pesticides are applied and stored.

In parallel, we have launched a new pesticide residue testing programme: in 2016, our baseline year, we tested 396 fresh fruit and vegetables in our supply chain. No residues were detected in 28%; we detected four pesticide residues (1%) at levels that exceeded the Maximum Residue Limit set for the product by the [European Food Safety Authority](#). All transgressions were fully investigated and appropriate actions taken.

Chemicals we've banned or are removing from non-food products: In our food business, we continue to work on our policy on Chemicals for Priority Action. These are chemical types that we have banned or are planning to remove. Some of the chemicals detailed in our policy are banned by law, but in other instances we go beyond compliance. Inclusion of chemicals contrary to this policy, in any parts of a product (including all internal components and packaging), is not permitted.

Chemicals listed include those in the [Oslo-Paris Convention for the Protection of the Marine Environment of the North-East Atlantic](#). For others, we base our policy on emerging evidence of damaging impacts, regularly reviewing the list and adding new chemicals as evidence becomes available.

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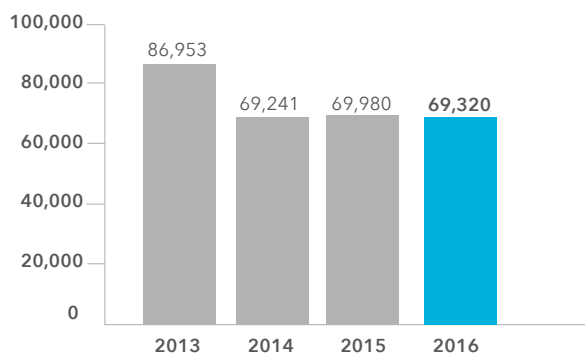
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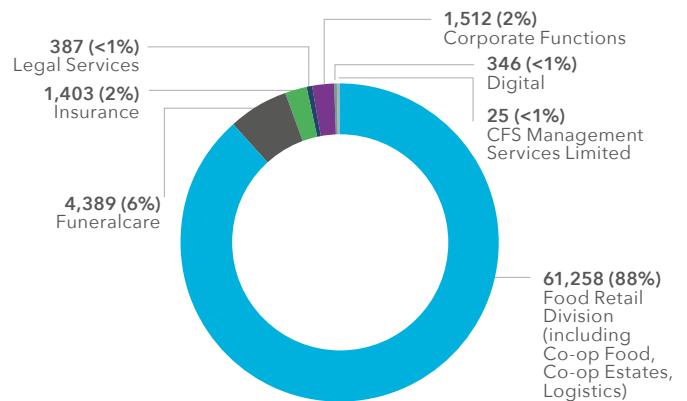
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Total colleague headcount at year-end



Total colleague headcount by business area (and percentage)



Voluntary turnover

Voluntary leavers are all colleagues resigning or leaving the business through a mutually agreed settlement. It does not include redundancy and retirement. Voluntary turnover is calculated as a percentage and is the number of voluntary leavers in the year divided by the average headcount, per business, over the same period. In 2016, we changed the way we categorise reasons for leaving the business, from our previous categories of controllable/uncontrollable turnover to an industry standard of voluntary/involuntary turnover.

Voluntary turnover by business area

| | |
|--|-----|
| Food Retail Division (including Co-op Food, Co-op Estates, Logistics) | 26% |
| Funeralcare | 9% |
| Insurance | 20% |
| Legal Services | 25% |
| Corporate Functions | 10% |
| Digital | 8% |
| CFS Management Services Limited | 7% |

Engagement with trades unions

We have formal recognition agreements with trades unions (NACO, UNITE and USDAW) across all areas of our business. We actively encourage colleagues to become union members but also respect the right of colleagues not to join a union.

We communicate and consult with each union regularly to maintain positive and constructive relationships. This approach has been particularly important in recent times as colleagues have experienced change through our Rescue and Rebuild.

Colleague engagement

We measure colleague engagement using an index. In 2016, our overall engagement score was 78%, up four points since 2015.

For the first time we created a short [video](#) that shows the results for our business, and uses comments from the survey to give a picture of what our colleagues told us.

Based on their business area's results in the survey, our colleagues create action plans in their teams. This helps colleagues to use the information from the survey to reflect on what's working well and what could be done to improve things.

Reward

Attracting, retaining and motivating colleagues means offering fair reward. We've always supported the principle of a statutory floor for basic pay, and campaigned for the introduction of the national minimum wage. We continue to pay above the National Living Wage, introduced by the Government in 2015, and apply our rates to all colleagues, unlike many other employers who reduce rates for younger colleagues or apprentices. We believe that pay and other types of reward should be awarded consistently and transparently. The proportion of colleagues in each salary band (see opposite) has remained stable since 2015.

We know that some members want to see pay ratios. This is also an area the Government is consulting on, but rather than wait for the outcome of this review we wanted to share information this year. There is no common way in which this is reported and we have adopted an approach which makes sense to us and we believe will be helpful to members.

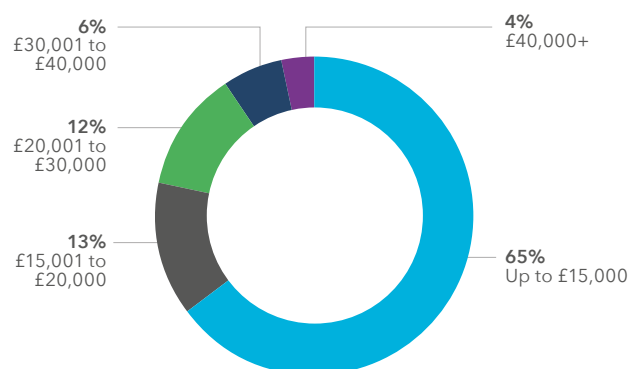
The ratio between our highest paid Executive and lowest paid colleague in April 2017 is 1:51 on Base Pay only or 1:101 for Base Pay plus on-target incentives. The Remuneration Report in our [2016 Annual Report](#) provides details on CEO and Executive pay.

Engagement score

| 2013 | 2014 | 2015 | 2016 |
|------------------|------------------|------------------|------|
| 76% ^R | 66% ^R | 74% ^R | 78% |

^R Restated to account for a change in methodology in 2016. Figures are comparable with 2016 figure.

Colleagues in each salary band



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Pensions

Data for 2013 includes those businesses which were subsequently discontinued in 2014 (Co-op Pharmacy, Co-op Farms and Sunwin Services). Subsequent years' data excludes these businesses.

Our pension scheme is also responsible for pension members who have left the business, and in 2016 this comprised 51,500 pensioners (2015: 52,500 [®]) and 64,000 deferred pensioners (2015: 63,000 [®]). Our automatic enrolment offer exceeds the minimum required, and we also offer colleagues who do not meet automatic enrolment criteria the opportunity to join and receive the same level of benefit.

[®] Restated to account for additional data.

Percentage of colleagues in a pension scheme

| 2013 | 2014 | 2015 | 2016 |
|------|------|------|------|
| 54 | 57 | 58 | 60 |

Employee Assistance Programme

We offer colleagues free access to an independent and confidential Employee Assistance Programme provided by Validium. This offers support across a range of areas, from access to counselling (face to face or by phone), to legal, financial or general wellbeing help and advice. The service also has a separate support line for our managers to seek guidance for their specific needs as line managers.

In 2016, 2,190 calls were received, covering 1,041 individual cases (approximately 1.5% of our colleagues). Of the 1,041 cases, 118 were referred for follow-up counselling with a trained counsellor.

We've made colleague wellbeing a priority for 2017, and have developed a wellbeing strategy to support colleagues when they face health and wellbeing issues, and to achieve a lifestyle that's right for them. To do this we'll make existing support services (such as the Employee Assistance Programme) more visible and easier to access. We expect use of this service to increase as a result.

Apprenticeships

In 2016 we celebrated our 1,500th apprentice joining our funeral business (that's over 3,000 across the Group since 2011). At the end of 2016 we had 514 apprentices in Co-op Funeralcare. We piloted activity throughout the year, including programmes to help develop our apprentices and their line managers.

2017 will be a big year for apprenticeships as we prepare for the apprenticeship levy and further government reforms. We will create over 1,000 apprenticeship opportunities in 2017 – 500 in our food business, and over 500 in our other businesses including Co-op Funeralcare, Co-op Insurance, Digital as well as our Support Centre.

In 2016 we were named a 'Top 100 Apprenticeship Employer' by the National Apprenticeship Service.



Diversity and inclusion

Our Respect network

Our lesbian, gay, bisexual and transgender (LGBT) colleague network, Respect, had 882 members at the end of 2016 (2015: 724) and 10,700 followers on Twitter. Respect activities help to raise awareness of LGBT issues and the network supports the professional development of its members across the business. We supported five Pride events during 2016, with active participation in Blackpool, Brighton and Manchester. And we are one of the first organisations to implement a Transgender Policy in our efforts to create an inclusive workplace.

Our Aspire network

Our Aspire network focuses on gender at our Co-op, providing informal support and empowering colleagues looking to develop their career. There were 579 members (2015: 448) in the network at the end of 2016. We held 'Lunch and Learn' events, a maternity focus group and mentoring sessions. Members told us via a survey that they now have 15% more confidence as a result of their participation in the Aspire network.

Our support for carers

Our annual colleague survey, 'Talkback', revealed 36% of colleagues have some form of dependant or caring responsibilities. Offering flexible working to give colleagues more choice in how, when and where they work helps us to retain talent. We recognise that people have different needs and responsibilities - it's all part of the changing landscape in society and being responsive to that helps us to stay relevant to our colleagues.

Health and safety

Accidents

We report on colleague accidents as it's a key indicator of how effectively we're managing workplace safety. As well as encouraging better reporting of accidents, we've launched a self-service system to make the reporting as simple as possible.

Accidents per 100,000 colleagues

| | 2014 | 2015 | 2016 |
|-----------------------|--------------------|--------------------|-------|
| Reportable | 679 ^R | 550 ^R | 488 |
| Non-reportable | 7,744 ^R | 7,302 ^R | 8,360 |

^R Restated in line with the methodology used for calculating 2016 data. Figures represent all incidents reported via our internal reporting system. This includes casualty accidents and crime, and not all are necessarily work-related.

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Engagement with stakeholders is key to creating an accountable and strategic response to our ethics and sustainability priorities. As a co-op, we understand who our stakeholder groups are based on their importance to our business model and our ability to impact or be impacted by them, including:

- members (see details below);
- customers (see details below);
- colleagues (see [Colleague wellbeing](#), and [Diversity and inclusion](#));
- suppliers (see [Ethical trade and human rights](#), [Food and farming](#), and [Environment and resource use](#));
- the Co-operative Movement (see [Community](#), and [Our Values and Principles](#)); and
- wider society (see [Business ethics and behaviour](#)).

Members

As a co-op, we're owned by our members – and this makes us different from other businesses. Making Membership meaningful and involving members through our democracy is very important to us. We aim to give people a real reason to become members, reward them and give them a voice to shape how we work.

| | 2016 |
|--|---|
| Active members – those who had traded with us in the last year in Co-op Food, Electrical, Funeralcare, Insurance and Legal Services. | 4.0m |
| Active and currently trading members – those who had shopped or swiped their card in our food business in the last three months, electrical business in the last six months, funeral, legal services or insurance business in the last 12 months. | 3.4m |
| New members | 0.5m (0.4m joined us after we launched our Membership Scheme) |

Our Membership Scheme

In 2016 we launched our Membership Scheme: 5% for members and 1% for the community on purchases of Co-op brand products and services.

- £16m was earned by members for themselves (of which £4.4m was redeemed) by the end of 2016.
- £2.8m was accrued by members for over 4,000 community causes, across our 1,500 local communities, by the end of 2016 (to be distributed via the [Local Community Fund](#) in 2017). This will support a wide range of projects including young people, community development, social inclusion as well as health, education and arts and culture.

Democratic member control

Having a strong relationship with our members, giving them a voice and listening to their views shapes what we do. Integrating our members' views into our business is key to our success and our unique co-op difference.

- Democratic member representation is achieved through the election of members (and representatives from independent co-operative societies¹) to the Members' Council, and also the election of Member Nominated Directors to the Group Board. Both of these are voted for by our members via our system of 'One Member, One Vote'.

¹ We have approximately 120 Independent Society Members (ISMs) who are independent co-operative societies to whom the Group provides services. ISMs have the right to elect members to the 15 designated ISM seats on the Members' Council and can also participate in the Group's AGM.

- Our Members' Council, comprising 100 elected members, represents our wider Membership base and acts as guardian of our Values and Principles. In 2016 the Members' Council worked with the Board and [Co-operatives UK](#) to develop our Co-op Compass – a set of measures to support the Council in its role in holding the Board to account. There are four lenses: Member Value; Member Voice; Ethical and Sustainable Leadership; and Co-operative Leadership. Rooted in our Co-op difference these provide a clear focus on priority areas. Key performance indicators are used to measure progress made by the Board, Group and the Members' Council. From 2017, reporting against the Compass will occur biannually to reflect Full Year and Half Year results.
- 99,000 members voted in our 2016 AGM, and Board and Council elections, with 750 voting in person at the AGM (these figures are largely comparable to 2015). Voter turnout among [eligible members](#) increased from 3.6% in 2015 to 4.7% in 2016.

Members can put forward motions at our AGM on issues that are important to them. In 2016 members voted on the following motions:

- [Political donations](#)
- [Member voice](#)
- [Ethics and sustainability](#)
- [Co-operation between co-operatives](#)
- [Colleagues and the National Living Wage](#)
- [Fairtrade](#)
- Members may also want to engage through other channels that better suit their preferences. We're keen to open up new channels for members to engage with us, and a big part of this is our Join In platform, giving members the opportunity to engage on live business issues across a range of topics.
- We aim to encourage young people to become members of our Co-op. At the end of 2016 we had 91,700 active members aged 16-24, and 2,400 active members under the age of 16. We know that young people are under-represented in our Co-op when compared to the UK population. Our Co-op Young Members' Board (CYMB) is an advisory panel of 15 members aged 16-25 and helps to foster representation of young members in our business. Their [Manifesto for Young People](#) sets out the CYMB's vision for youth creativity and innovation in our democracy and decision-making. Read more [here](#).

Co-operation among co-operatives

'Co-operation among co-operatives' is one of our Principles and allows us to share the economic advantages of our size and scale with others. The larger Independent Society Members are members of Federal Retail and Trading Services Limited (FRTS), a separate entity whose role is to govern the commercial and operational relationships between our Co-op Group and other, independent societies who are part of the Co-op's Buying Group.

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Customers

Co-op Food customer satisfaction

Satisfaction in our food business is measured via a quarterly telephone survey, and in 2016 this involved over 1,800 Co-op customers per quarter. We have a target of 7.7 for 2017, though there will be a change in survey methodology.

Satisfaction score (out of 10)

| 2013 | 2014 | 2015 | 2016 |
|------|------|------|------|
| 7.4 | 7.4 | 7.4 | 7.6 |

Co-op Funeralcare customer satisfaction

Because of the sensitive nature of the services offered by Funeralcare, we use postal surveys for those who have organised a funeral or used our memorial masonry service. Using this feedback, we measure our Funeralcare Excellence Score.

We also track the proportion of customers that were either fairly or very satisfied with our service, and in 2016 this was 98.9% (2015: 98.8%). One of the reasons for our high levels of satisfaction is the personal care we provide. Every funeral we arrange is unique and tailored to each individual that comes into our care. We have a target of at least 91 for 2017.

Excellence score

| 2013 | 2014 | 2015 | 2016 |
|------|------|------|------|
| 93.8 | 94.7 | 94.6 | 95.2 |

Co-op Insurance Would You Recommend Score (WYR)

We use WYR as the measure of customer satisfaction in our insurance business. This measures the likelihood that customers would recommend our products and services to their friends and family. Surveys are sent following interactions with our contact centres across our Claims, Sales and Service journeys and over 57,000 customers returned surveys in 2016.

The overall result for the year was 32, which compares to a UK benchmark with our survey provider of 36. Given the progress made through the year and particularly the final quarter, where we achieved a result of 36, we have set a stretch target of 37 in 2017 with improvement activity ongoing to support target delivery.

In 2016 we changed the survey methodology, which means we're unable to compare data with previous years.

Co-op Legal Services customer satisfaction

Every customer receives an online or postal questionnaire. The responses to this form the basis of our Legal Services customer satisfaction score.

Satisfaction score

| 2013 | 2014 | 2015 | 2016 |
|------|------|------|------|
| 89% | 89% | 88% | 89% |

Co-op Electrical customer satisfaction

Our satisfaction score is based on the rating from customer feedback service [Feefo](#).

Feefo rating

| 2014 | 2015 | 2016 |
|------|------|------|
| 98% | 98% | 97% |

Customer contacts and complaints

The Customer Care Department is the first point of contact for customers wanting to comment on our products or to find out more information. Contacts relate largely to our Co-op Food business. The rise in contacts in 2016 was driven in part by the launch of our Membership Scheme, as well as customers responding to an industry-wide, consumer-led campaign on the sourcing of milk products. We've also increased our social media presence, with more customers contacting us via these channels than previously – which means we record a wider range of interactions than before.

As well as monitoring the contacts received by our Customer Care Department, we also monitor complaints received. These are largely related to our Co-op brand food products. The increase in 2016 was in part due to increased recording of social media contacts and a rise in Co-op brand sales.

We believe it's important to effectively handle the complaints we receive. In November 2016 we started measuring customer satisfaction and found that 73% of 738 survey participants were satisfied with how their complaint had been handled (compared to a 2017 UK Customer Satisfaction Index benchmark for food retailers of 69%) and 61% would recommend us.

Insurance reportable complaints

The total number of complaints reportable to the Financial Conduct Authority for General Insurance in 2016 was 12,048.

New complaint-handling rules introduced by the Financial Conduct Authority in July 2016 mean all complaints (formal and informal) are now considered reportable. As a result, direct comparison is not possible with previous years' results.

Contacts received by Customer Care

| 2014 | 2015 | 2016 |
|----------------------|----------------------|---------|
| 157,461 ^R | 137,509 ^R | 175,585 |

^R Restated to exclude contacts identified as spam.

Product complaint numbers

| 2013 | 2014 | 2015 | 2016 |
|--------|---------------------|---------------------|--------|
| 25,999 | 25,121 ^R | 24,551 ^R | 30,220 |

^R Restated to account for a small number of previous product complaints now being reclassified as not being a complaint.

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Reporting approach

With our new [Co-op Way Policy Committee](#) in place in 2016, we started to establish a coherent Co-op wide approach to materiality and reporting.

How do we decide what is material?

As a co-op, ethics and sustainability are enshrined in our founding principles. Because we're owned and democratically controlled by our members, we recognise them as a key stakeholder and we're accountable to them.

We're a diverse group of businesses which means that our impacts are extensive and varied, and we know that we can't lead on every aspect of sustainable development. That's why we focus on our most significant social, environmental and economic impacts and the issues that matter most to our stakeholders, in particular our members, and our business.

We take an evidence-based approach to decision-making when it comes to deciding on our material issues. We're influenced by a range of stakeholder, business and society interests including:

- our Values and Principles
- our co-operative model and approach
- Member voice
- other stakeholder views
- our Purpose and business strategy
- our risk management framework
- legislation and the regulatory landscape
- external standards and benchmarks
- societal norms and emerging issues

During the first part of 2016, we engaged leaders from across the business, along with elected members from our Members' Council, to review our existing policies and the issues that are most material for our business. The results of this work provided the basis for our [Co-op Way Policy framework](#) through which we articulate our approach, develop and review policy and set future targets.

We've been reporting for over a decade, and we've long recognised that the process of accounting, auditing and reporting helps to drive improvements in our sustainability performance as well as providing crucial information to stakeholders. The Co-op Way Policy framework provides the basis for what, and how, we report on our performance in this Co-op Way Report.

Openness and honesty

We're committed to reporting on our performance – be it good or bad. As well as tracking progress against targets, we believe it's easier to get a sense of how we're doing if we compare our performance to our peers'. We include relevant performance benchmarks, detailing not only where we lead, but also where we strive for improvement. And, where possible, we include four years of performance data to allow year-on-year comparison.

Target setting

We provide an update on performance against our 2016 targets in a separate document [here](#). There were 58 targets in 2016, of which we achieved 38. For 2017 and beyond, we're focusing on fewer targets – allowing us and our stakeholders to see our 'bigger-picture' performance, so that we're clearly measuring and reporting on the things that matter.

Assurance

We engaged [DNV GL](#) to carry out assurance of our sustainability performance in this Co-op Way Report, as well as GHG emissions data in our Annual Report. Using their assurance methodology, [VeriSustain](#), DNV GL evaluated how our reporting adhered to the principles of stakeholder inclusiveness, materiality, responsiveness, completeness, neutrality and reliability; and how performance data adhered to the reliability principle. Our [Assurance Statement](#) gives an overview of the areas of performance data in scope.

Reporting against external frameworks

We report against the [GRI G4 Guidelines](#) (core) in our [online table](#).

The United Nations (UN) has set clear sustainable development objectives for 2030. The UN Sustainable Development Goals (SDGs) are designed to focus government, civil society and business on addressing the world's biggest challenges – such as ending poverty and hunger, protecting the environment and improving living standards of people everywhere. We have a long history of supporting many such causes through our business activities, charity partnerships and initiatives. In January 2017, we signed an open letter calling on the Government to acknowledge the importance of the goals, and pledging to work with them to ensure the SDGs are delivered in the UK and around the world. While we will still need to consider how best to align our future activity more directly to the SDGs, there are examples of activity across our business which illustrate how we [already align with many of the goals](#).

Scope of reporting

Performance relates to the calendar year 2016 (unless otherwise stated) and to our operations and stakeholders.

It covers those businesses wholly owned by the Co-operative Group Limited as at 31 December 2016 (see [About our Co-op](#)). This Report relates to our Group-wide performance unless otherwise stated (in some instances we refer to a particular business, and this is stated clearly). Reporting on products sold by Co-op Food focuses on Co-op brand products. Co-op brand accounted for 46.9% of total Co-op Food turnover in 2016 (2015: 45.7%). Like other retailers, we have greater influence over Co-op brand products than we do other brands, and our priority continues to be to improve the sustainability of these products.

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Independent assurance statement

Scope and approach

The Co-operative Group Ltd (the Co-op) commissioned **DNV GL Business Assurance Services UK Limited** (DNV GL) to undertake independent assurance of the Co-op Way Report 2016 (the "Report") for the year ended 31 December 2016.

We performed our work using DNV GL's assurance methodology VeriSustain™, which is based on our professional experience, international assurance best practice including the International Standard on Assurance Engagements 3000 (ISAE 3000), and the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines. We evaluated the report for adherence to the VeriSustain™ Principles (the "Principles") of stakeholder inclusiveness, materiality, responsiveness, completeness, neutrality and reliability.

We evaluated the performance data using the reliability principle together with the Co-op's data protocols for how the data are measured, recorded and reported. The 2016 performance data in scope was:

- Community (total UK community investment split by cash, colleague time, gifts in kind, management costs, leverage; number of colleagues, days and value of staff time for colleagues involved in community activity during work time; total investment in international communities)
- Ethical Trade and Human Rights (number of sites and workers on Sedex, % Tier 1 sites completed self-assessment questionnaire and audited; location of audits; number of supplier events carried out; number of delegates; hours of supplier training; total % increase in Fairtrade sales)
- Healthy Living (proportion of products carrying traffic light labelling that are 'healthy'; proportion of promotions for healthier products)
- Food and Farming (£m higher welfare sales; proportion of sales by welfare standard of own-brand eggs and milk; proportion of sales by welfare standard of own-brand fresh protein; % fresh beef and pork, chicken, sausages, duck, turkey, milk and eggs sourced from UK farmers)
- Climate Change (Energy Use; Greenhouse Gas (GHG) emissions including emissions by source; Carbon intensity; % electricity from renewables; % electricity from own renewable energy projects)
- Waste (total waste from operations; % waste reused/recycled; food surplus redistributed; packaging handled by material; % reduction of weight of own brand packaging)
- Resource Use (% fish used to supply wild fish and seafood products sourced from low-risk or medium-risk fisheries; % wood and paper products purchased for Co-op Food from FSC-certified sources; % coffins manufactured by Co-op Funeralcare made from FSC-certified wood)
- Colleagues, Diversity, Health and Safety (total colleague headcount; reportable and non-reportable accidents; % colleagues by age, gender, disability and ethnicity)

We understand that the reported financial data and information are based on data from the Co-op's Annual Report and Accounts 2016, which are subject to a separate independent audit process. The review of financial data taken from the Annual Report and Accounts is not within the scope of our work.

We planned and performed our work to obtain the evidence we considered necessary to provide a basis for our assurance opinion. We are providing a 'limited level' of assurance. A 'reasonable level' of assurance would have required additional work at Group and site level to gain further evidence to support the basis of our assurance opinion.

Responsibilities of the Directors of the Co-op and of the assurance providers

The Directors of the Co-op have sole responsibility for the preparation of the Report. In performing our assurance work, our responsibility is to the management of the Co-op; however, our statement represents our independent opinion and is intended to inform all Co-op stakeholders. DNV GL was not involved in the preparation of any statements or data included in the Report except for this Assurance Statement. We have no other contract with the Co-op and this is the tenth year that we have provided assurance.

DNV GL's assurance engagements are based on the assumption that the data and information provided by the client to us as part of our review have been provided in good faith. DNV GL expressly disclaims any liability or co-responsibility for any decision a person or an entity may make based on this Assurance Statement.

Independence

DNV GL's established policies and procedures are designed to ensure that DNV GL, its personnel and, where applicable, others are subject to independence requirements (including personnel of other entities of DNV GL) and maintain independence where required by relevant ethical requirements. This engagement work was carried out by an independent team of sustainability assurance professionals.

Basis of our opinion

A multi-disciplinary team of sustainability and assurance specialists performed work at headquarters. We undertook the following activities:

- Review of the current sustainability issues that could affect the Co-op and are of interest to stakeholders;
- Review of the Co-op's approach to stakeholder engagement and recent outputs;
- Review of information provided to us by the Co-op on its reporting and management processes relating to the Principles;
- Interviews with five selected Directors and senior managers responsible for management of sustainability issues and review of selected evidence to support issues discussed. We were free to choose interviewees and functions covered;
- Review of supporting evidence for selected claims in the report, including reported performance against all 2016 targets. The selected claims were chosen based on their perceived importance and the materiality of issues at a consolidated corporate level;
- Review of the processes for gathering and consolidating the specified performance data and, for a sample, checking the data consolidation. Given most reported data are calculated at Group level, we undertook our testing at Head Office. For energy and waste, where data is consolidated from site level, we tested a sample back to source remotely.

Opinion

On the basis of the work undertaken, nothing came to our attention to suggest that the Report does not properly describe the Co-op's adherence to the Principles. In terms of reliability of the performance data, nothing came to our attention to suggest that these data have not been properly collated from information reported at operational level, nor that the assumptions used were inappropriate.

Observations

Without affecting our assurance opinion, we also provide the following observations.

| | | |
|--------------------------------|------------------------------|-------------------------------------|
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Stakeholder inclusiveness

The participation of stakeholders in developing and achieving an accountable and strategic response to sustainability.

We observed wide and inclusive processes that provide channels for the Co-op's stakeholders to express their views. These mechanisms were founded upon the Co-op's unique and democratic membership structure. The inclusion of the members' council in the process to rank the priority issues for the Co-op Way Policy Framework was a good example of how stakeholder views were incorporated in the Co-op's overall strategy.

The Report was notably more concise than in previous years, presented as a summary supported by a more detailed performance report and in an accessible and engaging format. The Co-op should consider seeking feedback from a range of stakeholders to understand whether the new approach is meeting their expectations.

Materiality

The process for determining the issues that are most relevant to an organisation and its stakeholders.

The Co-op had processes to determine its main sustainability priorities and had relevant mechanisms in place to take stock of emerging priorities. The Co-op Way Policy Committee undertook an extensive process this year to rank the priority issues and policies which it oversees, and that process influenced the compilation of the Report. Future reports should provide greater insight into the relative priority of issues the Co-op is managing.

Responsiveness

The extent to which an organisation responds to stakeholder issues.

Progress against 2016 targets was clearly described, and forward looking targets were in place across all the issues within the sustainability programme. We recommend future reports should include a greater balance of long and short term targets, ensuring all are specific and measurable and take account of appropriate external frameworks to demonstrate the Co-op's contribution to addressing global sustainability challenges.

Overall governance of sustainability had been strengthened through the introduction of the Co-op Way Policy Committee. Its remit should now extend to oversight of progress in the sustainability programme, including approval of targets before they are published.

The new ethical decision making tool offered an important mechanism for the Co-op to demonstrate its responsiveness. We recommend reporting on examples of how this supports decision making as it is implemented.

Completeness

How much of all the information that has been identified as material to the organisation and its stakeholders is reported.

The Report was comprehensive, offering stakeholders confidence that the issues in scope are managed appropriately. For several issues, including Ethical trade, Community and Farming, the Co-op already reports on impacts along the value chain. Going forward, we recommend broadening the reporting boundary of other issues, including for example safety and scope 3 GHG emissions.

Neutrality

The extent to which a report provides a balanced account of an organisation's performance, delivered in a neutral tone.

The Report was balanced, and included commentary on both the successes and challenges faced during the year. Full reporting on progress against targets achieved and not achieved added to the overall balance. Performance data included prior years, allowing readers to see trends and direction of performance. The

Co-op provided benchmark data as additional context for several indicators and should consider broadening this where possible.

Reliability

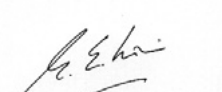
The accuracy and comparability of information presented in the report, as well as the quality of underlying data management systems.

Overall, for the data that is in scope we had confidence in the processes and systems to ensure the information presented in the report was accurate. In 2016, data collection processes were documented in some areas and we recommend this approach be extended to all data, to facilitate continuity and to ensure data is collected consistently year on year. Where the data are presented for an internally developed indicator, rather than one based on an external protocol such as GRI, these should also include a clear definition of how they were compiled, incorporating the scope and boundary of the indicator.

For and on behalf of DNV GL Business Assurance Services UK Limited

London, UK

10 May 2017



Mark Line

Senior Principal Consultant and Lead Assuror
UK Sustainability, DNV GL – Business Assurance



Kate Bruintjes

Principal Consultant and Reviewer
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Co-operative Group Limited

Registered society, registered in England and Wales under the Co-operative and Community Benefit Societies Act

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